

# Employment Observatory

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One Euro is equivalent to the following amounts of national currencies (31 December 1999):

Belgium	BEF	40.3399
Denmark	DKK	7.4380
Germany	DEM	1.95583
Greece	GRD	330.146
Spain	ESP	166.386
France	FRF	6.55957
Ireland	IEP	0.787564
Italy	ITL	1.936.27
Luxembourg	LFR	40.3399
Netherlands	NLG	2.20371
Austria	ATS	13.7603
Portugal	PTE	200.482
Finland	FIM	5.94573
Sweden	SEK	8.5600
United Kingdom	GBP	0.6209

# EMPLOYMENT OBSERVATORY **Trends**



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# Older Workers on the Labour Market: an Introduction\*

Rising life expectancy in the industrialised countries is leading to an "ageing" of the population. Because in many countries this trend is being accompanied by a major decline in the birth rates, there is often simultaneously the problem that within the population of working age the relative size of the younger cohorts is declining, while that of older workers is increasing substantially; that is, the working population, too, is ageing.

Such trends have complex economic and social implications for the situation facing pensioners, for the financial viability of the pension, health and care system, and for the situation facing older workers on the labour market. Unemployment is particularly important in this context: it tends to hit older workers – and especially the lower skilled among them – hardest.

In order to save older workers from unemployment, most European countries have established various forms of early exit from working life, in most cases designed and also financed by the government. This was also in the interest of employers, as such instruments offered them a way to reduce or restructure their workforce at low cost. Such restructuring proves all the easier when those affected do not face financial losses and, via their interest-representation organs, feel able to accept such exit paths.

For some time now, the economic implications of the ageing of societies have been the subject of intense debate; the contributions to this issue form part of a larger whole, consisting of numerous international and European publications on this theme. Prominent examples include the 1998 report by the OECD, *Maintaining Prosperity in an Ageing Society*, which placed particular emphasis on the need to enhance the skills of older workers in order to strengthen their employability. The research un-

dertaken within the NBER Programme "Economics of Aging" ([www.nber.org/programs](http://www.nber.org/programs)) is an indication of the intensity with which these issues are being discussed in the USA.

At the European level, the topic of older workers received greater emphasis in 1999. Older workers are referred to explicitly in the 1999 Employment Policy Guidelines for the first time. The new Guideline 4 draws attention to the necessity to develop measures, within the context of a policy of "active ageing", in order to maintain the work capacity of older workers and to grant them access to lifelong learning and, thus, active participation in working life. At the same time, vigorous steps must be taken to counter age discrimination. The position adopted by the EU Commission is clearly set out in its contribution to the International Year of Older Persons, declared by the United Nations for 1999, under the title *Towards a Europe of All Ages* (COM [1999] 221 final, 21.5. 1999).

The choice of topic for this issue is also linked to the Finnish presidency in the second half of 1999. Preliminary – and rather longer – versions of the contributions to this volume served the Commission as preparatory documents prior to discussions and negotiations on this theme. In particular, it is also to be noted that a special section of "Employment in Europe 1999" (<http://europa.eu.int/comm/dg05>) has been dedicated to the labour market implications of ageing. There, one can find information on, and comparisons of, the characteristics of older workers – such as participation, unemployment and re-employment chances, occupational and sectoral structure, income, and so on – for all the Member States of the EU.

This issue of TRENDS focuses primarily on those aspects with which

older workers find themselves confronted on the labour market. The reports from the Member States clearly reveal both numerous similarities and differences between the countries in terms of:

- the current situation and the problems expected;
- the provisions concerning statutory age limits and early retirement from the labour market and active labour market policy measures;
- the efforts made by firms, the social partners and governments to ensure that older workers remain in working life longer;
- policy conclusions.

This introduction aims to make the national reports more readily comprehensible by presenting some supplementary information and considerations, particularly concerning the interrelationship between early retirement from working life and unemployment.

The statutory retirement age, that is, the age at which older persons are entitled to claim the standard old-age state pension, varies between the Member States (MS). In many cases this age is set at 65, for both men and women (E, IRL, L, NL, S); in Denmark the pension age is now 65, having been lowered at the start of 1999 from 67 years. In Belgium the standard statutory retirement age lay between 60 and 65 years prior to 1997; between then and the year 2000, the age limit is steadily being increased to 65 years.

In a number of MS, the retirement age of 65 applies only to men, whereas the age for women is – or was until recently – slightly (63 in P) or considerably (60: D, GR, UK) lower. In some of these countries, the abolition of these gender-specific differences is already under way (D) or

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is planned (P, UK). Some other countries have exceptional rules for certain occupational groups (FIN) or working conditions or branches (GR). In many countries it is possible to draw an old-age pension – subject to corresponding cuts in the pension level – prior to this statutory retirement age. This is to be distinguished from the additional possibility in some MS of more or less flexible exceptional provisions, which enable a pension to be drawn at an earlier age without deductions.

Alongside the group of countries where the retirement age, at least for men, is in principle 65, there is another group in which the statutory retirement age is considerably lower. In France the age limit is 60; in Italy the retirement age was raised in 1995 from 60 to 63 for men and from 55 to 60 for women; and in Austria men are still able to enter retirement at 60, whereas women can enter at 55. These differences alone in some cases go a considerable way in explaining the significantly lower participation rates of men and women in the age groups in question.

In addition, the existing opportunities to leave the labour market prematurely, and the financial conditions attached to them, need to be considered. Such options include early retirement, entitlement to unemployment benefit without an obligation to be available for work, and provisions for occupational disability and work incapacity pensions. With few exceptions, measures are available from all three areas in all MS. On the other hand, there are huge differences between the MS in terms of financial provisions and conditions of entitlement, especially regarding minimum age requirements.

In order to evaluate the impact of such regulatory instruments on the participation of older persons in the labour market, the participation rates of the prime age group, those aged between 25 and 49, can be used as a yardstick. Male participation rates for this age group are in excess of 90% in all MS, consistently within a narrow band of 5 percentage

points. Female participation rates are consistently substantially lower in this age group: by more than one third in Greece, Spain, Ireland, Italy and Luxembourg; and by 10 percentage points or less in Denmark, Finland and Sweden. Clearly, this reflects different traditions in the MS regarding both the subjective perceptions and the objective realities of gender roles. As a result, the differences in participation rates for prime-age women are far more pronounced between MS than is the case for men. The difference between the highest rate (S: 85.8%) and the lowest (I: 58.3%) amounts to more than 27 percentage points.

Against the background of participation rates in the prime-age group, it is possible to determine the influence on participation among the older age groups of the various provisions in the MS on retirement ages and early exit from the labour market. Of course, other factors also play

an important part here; particularly relevant are the level of security offered by company pension schemes or private provision for old age, including home ownership, family status and household composition, the extent of self-employment and the scope for working in the unofficial sector.

Compared with prime-age, participation rates of *males in the 55–59 age group* vary significantly between countries. The difference in participation rates is lowest in Sweden and is also rather insignificant in Denmark. In a number of MS, the participation rates of this age group are less than one quarter (D, GR, E, IRL, P, UK), and in others (F, NL, A, FIN) they are around one third below that of the prime-age group. In Belgium, Luxembourg and Italy, on the other hand, the difference is very large (cf. Table 2). In these countries withdrawal from the labour force begins at a relatively ear-

**Table 1: Participation rates by age group in the EU Member States, 1997 (in %)**

Total	EU 15	B	DK	D	GR	E	F	IRL
25–49 years	82.7	83.9	88.5	84.8	77.6	77.4	87.0	76.6
55–59 years	55.2	35.3	71.8	64.1	52.1	50.0	52.6	50.3
60–64 years	23.5	11.2	34.1	20.2	33.0	27.7	11.1	34.8
	I	L	NL	A	P	FIN	S	UK
25–49 years	75.0	78.2	83.7	85.6	85.5	87.8	88.2	84.1
55–59 years	37.8	35.9	48.9	43.7	57.6	58.9	80.4	63.7
60–64 years	18.7	10.8	14.2	10.9	41.1	19.5	54.0	38.9
Men	EU 15	B	DK	D	GR	E	F	IRL
25–49 years	93.4	93.7	93.2	93.7	95.6	93.3	95.6	92.0
55–59 years	68.6	49.3	81.5	74.7	75.0	74.8	60.9	72.0
60–64 years	32.7	18.4	42.9	29.0	47.7	41.2	11.4	52.0
	I	L	NL	A	P	FIN	S	UK
25–49 years	91.7	94.9	94.4	94.3	93.6	90.8	90.6	92.6
55–59 years	54.9	54.7	64.3	63.4	71.3	60.4	84.4	74.6
60–64 years	30.6	(14.6)	21.2	13.5	52.8	21.9	57.1	51.5
Women	EU 15	B	DK	D	GR	E	F	IRL
25–49 years	71.8	73.8	83.7	75.5	60.8	61.6	78.6	61.3
55–59 years	42.0	21.7	61.1	53.2	30.7	26.8	44.7	27.8
60–64 years	15.1	4.6	25.2	11.7	20.3	15.6	10.8	17.5
	I	L	NL	A	P	FIN	S	UK
25–49 years	58.3	61.1	72.5	76.7	78.0	84.7	85.8	75.6
55–59 years	21.5	17.6	33.2	24.7	45.6	57.5	76.4	53.0
60–64 years	8.3	(7.2)	7.5	8.6	31.1	17.3	51.0	26.9

Source: Eurostat: Labour Force Survey 1997.

ly stage for male workers. In the 55–59 age group, the participation rate of male workers is less than 50% in Belgium, and in Italy and Luxembourg it is only slightly above 50%. In Denmark, Germany, Greece, Spain, Ireland, Portugal, Sweden and the United Kingdom, on the other hand, more than 70% of men aged between 55 and 59 are still in the labour force, in some cases considerably more. Participation rates among men in this age group are far more highly differentiated between countries than is the case with prime-age males: the difference amounted to as much as 35 percentage points (Belgium: 49.3%; Sweden: 84.4%, in 1997).

This differentiation in participation rates is even more pronounced in the case of *women aged between 55 and 59*. The participation rate of women in this age group is only one third as high as that of the prime-age group in some MS (B, L, A), is less than half in Greece, Spain, Ireland, Italy and the Netherlands, and is around 60% in France and Portugal. The figure is down by less than one third in Denmark, Germany, Finland and the United Kingdom; as was the case with men, the difference compared with the prime-age group was by far the lowest in Sweden (cf. Table 2). Accordingly, the participation rates of women in this age group are just 20% or lower in Belgium, Italy and Luxembourg. And in Greece, Spain, Ireland, the Netherlands and Austria, less than one in three women in this age group participates in the labour market. It is only in Denmark, Germany, Finland and the United Kingdom that the participation rate is above 50%; in Sweden it is as high as 76%. As a result of the extremely sharp differences in the extent of early exit from the labour market in the MS, there has been a significant increase in differences of participation rates between the MS; the difference now amounts to almost 60 percentage points (Belgium: 17.6%; Sweden: 76.4%).

This process of differentiation continues on a broad front in the

**Table 2: Relative difference between the participation rate of older persons and that of the prime-age group (25–49 years) (in %)**

Men	EU 15	B	DK	D	GR	E	F	IRL
55–59 years	–26.6	–47.4	–12.6	–20.3	–21.5	–19.8	–36.3	–21.7
60–64 years	–65.0	–80.4	–54.0	–69.1	–50.1	–55.8	–88.1	–43.5
	I	L	NL	A	P	FIN	S	UK
55–59 years	–40.1	–42.4	–31.9	–32.8	–23.8	–33.5	–6.8	–19.4
60–64 years	–66.6	–	–77.5	–85.7	–43.6	–75.9	–37.0	–44.4
Women	EU 15	B	DK	D	GR	E	F	IRL
55–59 years	–41.5	–70.6	–27.0	–29.5	–49.5	–56.5	–43.1	–54.6
60–64 years	–79.0	–93.8	–69.9	–84.5	–66.6	–74.7	–86.3	–71.5
	I	L	NL	A	P	FIN	S	UK
55–59 years	–63.1	–71.2	–54.2	–67.8	–41.5	–32.1	–11.0	–29.9
60–64 years	–85.8	–	–89.7	–88.8	–60.1	–79.6	–40.6	–64.4

Note: Calculated on the basis of Table 1.

next age group, the *60–64 year-olds*. By 1997 it was only in a few MS that around half of the male population aged between 60 and 64 still participated in the labour force (GR, IRL, P, S, UK), whereas in some countries only around a fifth or less formed part of the labour force (B, F, L, NL, A, FIN). The gap between the MS with the highest and lowest participation rates of men in this age group amounted to around 46 percentage points in 1997 (S: 57.1%; F: 10.8%).

The figures on participation rates among women aged between 60 and 64 are such that they conceal the (cultural) differences evident from the prime age group. Indeed, participation rates in Spain, Greece and Ireland, for instance, are actually higher than in Germany, France, the Netherlands or Austria. The participation rate in Finland is also surprisingly low for this group. There is thus no longer a North-South divide in this respect. Once again, the lowest participation rate is recorded by Belgium, where only one woman out of twenty aged 60 to 64 is still in the labour force. In many countries it is only around one in ten or less (D, F, I, L, NL, A), whereas in Denmark, Greece and Portugal more than one in five women in this age category is economically active, and in Sweden the figure is above 50%.

Of particular interest is the relationship between measures to reduce participation rates (flexible age lim-

its, early retirement, removing older unemployed from the register, disability pensions) and unemployment rates. A reduction in participation rates will have a positive impact on unemployment rates in the corresponding group, to the extent that it is unemployed persons who make use of the measures offered. Yet, given that many of these measures can also be claimed by those in work, they also serve to reduce the economically active population. Although the main aim of the measures is to prevent a rise in the unemployment rate, or to reduce the current unemployment rate, it cannot be precluded that at the same time the participation and the employment rate, too, will be reduced.

In spite of all the associated problems (on this, see also TRENDS No. 30), a look at Table 3 seems to suggest that there is indeed the supposed correlation – albeit not a particularly close one – between participation rates and unemployment rates of the higher age groups. In some Member States (DK, D, A, P, FIN, UK), unemployment rates among 55–59 year-old men are higher – and in some cases, significantly so – than the rate among prime-age men; several of these countries belong to the group (Table 2) in which the difference in participation rates between the older persons and prime-age groups is relatively small (DK, D, P, UK). In these countries the measures permitting

early exit from working life have played a comparatively minor role. Conversely, some countries with relatively low unemployment rates among the 55–59 year-old men (B, GR, E, F, IRL, I, NL, S) also record substantially lower participation rates compared with the prime-age category (B, F, I, NL). This correlation is even more pronounced for women than for men. Here, there are two main groups: higher unemployment rates (DK, D, FIN) and comparatively small differences in participation rates between age groups (DK, D, FIN); and lower, in some cases significantly lower, unemployment rates (B, GR, E, F, I, NL, P, S, UK) and, at the same time, relatively (in some cases, markedly) lower participation rates (B, GR, E, F, I, NL, P).

As far as the 60–65 age group (men and women) is concerned, the correlation between comparatively low unemployment rates and lower participation rates, not least due to the deployment of the measures mentioned, is even more pronounced than for the 55–59 age group.

Attempts to raise the participation (and especially the employment) rates of older persons of working age will encounter particular problems in those Member States in which the general level of unemployment is high. If the measures to facilitate early exit from the labour market are wound down and retirement ages increased, the short-term effect, at least, is likely to be a rise in labour supply and a worsening of the unemployment problem.

As the contributions to this issue show, there is a way out of this dilemma, one that has already been adopted by some Member States and that should, according to some of the authors, be adopted by others: the use of flexible forms of labour market participation by those approaching the end of working life. Some of the solutions chosen combine a reduction in the hours worked by older workers with a supplementary payment, usually publicly financed and often conditional on the early retiree being replaced by an unem-

**Table 3: Unemployment rates by age group in the EU Member States, 1997 (in %)**

Total	EU 15	B	DK	D	GR	E	F	IRL
25–49 years	9.6	8.1	4.9	8.8	8.1	19.1	11.4	9.5
55–59 years	10.8	4.9	5.7	17.0	3.7	14.2	9.0	7.0
60–64 years	5.8	.	(3.6)	7.7	2.5	7.1	3.2	.
	I	L	NL	A	P	FIN	S	UK
25–49 years	10.3	2.1	4.9	4.7	6.0	12.1	9.8	6.0
55–59 years	4.9	.	4.0	5.6	6.2	15.0	7.5	6.8
60–64 years	3.2	–	(3.7)	.	3.7	.	13.8	5.7
Men	EU 15	B	DK	D	GR	E	F	IRL
25–49 years	8.3	6.3	4.1	8.1	5.2	14.4	9.8	9.6
55–59 years	10.5	5.0	5.0	15.7	3.6	13.2	9.0	(7.3)
60–64 years	6.2	.	.	7.5	(2.8)	7.1	(3.7)	.
	I	L	NL	A	P	FIN	S	UK
25–49 years	8.0	(1.6)	3.7	4.4	5.0	12.1	10.1	6.8
55–59 years	5.2	.	3.6	6.4	7.7	14.3	9.3	8.1
60–64 years	3.3	–	.	.	4.6	.	14.5	7.6
Women	EU 15	B	DK	D	GR	E	F	IRL
25–49 years	11.2	10.5	5.7	9.6	12.5	26.3	13.4	9.3
55–59 years	11.4	(4.8)	6.7	18.8	(3.9)	16.9	8.9	.
60–64 years	4.9	.	.	8.1	.	7.1	(2.8)	.
	I	L	NL	A	P	FIN	S	UK
25–49 years	13.8	(3.0)	6.6	5.0	7.0	12.1	9.5	5.1
55–59 years	4.2	.	4.8	.	4.0	15.6	5.5	4.9
60–64 years	(2.7)	–	.	.	.	.	13.1	2.1

Source: Eurostat: Labour Force Survey 1997.

ployed person or first-time worker. Examples of such schemes can be found in the reports from Belgium, Germany, France and Finland. It comes as no surprise that all these countries have high overall unemployment rates, and are concerned with retaining older workers in the labour market for longer, while at the same time improving the employment opportunities of younger jobseekers and thus helping to reduce unemployment.

Many Member States have adopted measures to improve the chances of older persons in regaining or retaining employment in the form, for instance, of reduced tax and contribution rates or wage-cost subsidies. The reports clearly show that the re-employment chances of the older unemployed are poor. This is reflected in both the high entry rates into unemployment and the often very long duration of unemployment spells.

One of the consequences of this fact – which, it seems, the fiscal and labour market policy measures deployed have great difficulty in overcoming – is that everything possible must be done to make continued employment in advanced age a much more “normal” phenomenon that it has been to date. This requires the deployment of measures that maintain the employability of workers until an advanced age.

Skills and qualifications are among the most important factors determining employment and income; low-skilled workers are both at a higher risk of being made unemployed and have less chance of finding a job once unemployed. In spite of a general re-orientation towards lifelong learning, older workers are underrepresented in further training schemes, as many of the reports reveal. This may reflect cost-benefit considerations: the shorter “remaining service life” of older workers prevents employers

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from recouping the cost of investment in higher qualifications. This suggests, on the one hand, that further training must commence before workers enter advanced age groups, but, on the other hand, it must be emphasised that learning has important non-economic effects, especially for older persons; these consist, for instance, in supporting and maintaining independence, self-esteem, health and active participation in social life. This implies, however, that firms cannot be expected to bear more than a share of the costs of training older workers.

The aim of retaining older workers in working life for longer cannot be achieved without the support of firms and the social partners. Firms in all Member States continue to take advantage of the existing provisions

facilitating early retirement. Yet often employees do not opt for such solutions voluntarily; in some cases they do so to avert the risk of unemployment or merely the pressure to which they are exposed at the workplace (be it from management or from colleagues). Yet firms are gradually recognising that the early exit of older workers can lead to a serious loss of enterprise know-how. In the light of this, there are certain trends, reported on in the contributions to this issue, towards company-level and collectively bargained agreements that take account of human resource development considerations, especially for older age groups, and that envisage steps to maintain older workers within the enterprise.

Thus, the reports show that a re-orientation process has begun in cer-

tain Member States, one that appears to be influenced not least by the extent to which labour market participation by older persons has already been eroded. The fact that such a shift is being undertaken in spite of the risk that this may contribute to an increase in unemployment, at least in the short run, reflects primarily the recognition that a highly unequal distribution of employment opportunities across the various age groups poses a threat to social cohesion in the longer run, in both intragenerational and intergenerational terms. As some of the contributions show, age discrimination – irrespective of the overall labour market situation – is and remains a phenomenon that requires counter-measures.





# Belgium

## Introduction

Demographic projections clearly indicate that the Belgian population and labour force are ageing. Details are presented in Table 1.

On the basis of Table 1, it can be estimated that the share of the group aged 50 to 75 will increase from 17% in 1985 to 23% in 2050.

Secondly, it should be mentioned that the activity rates of the older age groups are very low. In Belgium, only 30% of the male population aged 50 or over is still active on the labour market (compared with an average of 39% in the European Union). For females, the participation rate is even lower: only 11%, compared with an average of 19% for the European Union. The Belgian participation rates for older workers are the lowest in the entire EU (Eurostat, 1997).

The activity rates of the older age groups have clearly declined over the last two decades, as Table 2 illustrates.

Whereas the activity rates in the younger age groups declined by only 2 to 3% between 1975 and 1995, they fell much more sharply for the older age groups: -7% (50-54 years), -28% (55-59 years) and -40% (60-64 years).

It is clear that population ageing and a decline in activity rates among older workers can have negative consequences for the social protection system (i.e. a heavy burden on the active population with regard to financing the pension system). This is illustrated in Table 3, which clearly indicates an increase in the dependency of older persons between 1995 and 2050, both from a demographic point of view and at the sociodemographic and financial levels. This explains the fact that more and more workers, both young and old, are saving extra money for their old age,

Table 1: Evolution of the Belgian labour force by age group, males and females (in 1,000s)			
	15-24 years	25-49 years	50-75 years
1985 (observed)	656	2,650	682
1995 (observed)	444	3,125	619
2000	402	3,217	743
2005	427	3,177	883
2020	462	2,847	1,112
2050	445	2,675	935

Source: Lindley et al. (1998).

Table 2: Evolution of the average activity rates by age group, males (in %)								
	25-29 years	30-34 years	35-39 years	40-44 years	45-49 years	50-54 years	55-59 years	60-64 years
1975	95.7	98.2	97.6	96.4	93.4	88.7	81.0	58.4
1980	95.5	97.1	96.8	95.0	91.6	87.2	72.2	35.8
1985	95.1	97.2	96.9	95.7	92.9	84.8	62.0	26.9
1990	94.4	96.2	95.0	94.6	91.9	76.5	50.5	19.3
1995	93.1	95.0	95.4	93.2	91.0	81.6	52.9	18.7

Source: Lindley et al. (1998).

Table 3: Dependency coefficients between 1995 and 2050					
	1995	2000	2010	2030	2050
Demographic: dependency coefficient elderly*	39	40	44	62	67
Socio-demographic: (early) retirees/labour force	51	52	54	75	82
Financial: pensions/wage sum	18	18	19	23	23
* (60 and older)/(20-59).					

Source: "Sociale zekerheid op een tweesprong", *Sociaal-economische nieuwsbrief*, January 1998, pp. 18-33.

either via the system of private pensions, on their own or through their companies. This is mainly the case for the higher income groups and in strong sectors that have included such arrangements in their collective agreements.

Furthermore, the ageing of the labour force and the decline in the activity rates of older workers can lead to a shortage of manpower in sectors that have made frequent use of early exit paths in order to reduce the older workforce, such as in textiles, construction and the metal industry.

## Changes in the policy framework: recent trends

### Policies concerning the (legal) retirement age

Between 1990 and 1997, the normal legal retirement age was fixed at between 60 and 65, for both men and women. Now the government is progressively replacing this flexible retirement age with a new system which will take its definitive form in January 2000, when the legal retirement age will be 65, for both men

Table 4: Evolution of early exit paths in the private sector between 1992 and 1998

	1992	1993	1994	1995	1996	1997	1998	Ratio in 1998 (with 1992 = 100)
Conventional bridging pension <sup>1</sup>	138,263	137,403	136,536	134,117	133,650	129,112	123,911	90
Unemployment scheme for older unemployed <sup>2</sup>	71,683	74,667	73,767	73,780	95,102	113,754	131,159	183
Part-time career break <sup>3</sup>	?	?	?	?	5,559	6,290	7,790	?
Disablement insurance act <sup>4</sup>	87,724	87,507	87,376	87,215	87,535	88,200	91,178	104
Total	297,670*	299,577*	297,679*	295,112*	321,846	337,356	354,038	116*

\* Excluding the category of persons on part-time career breaks.

Sources:

1 Ministerie van Tewerkstelling en Arbeid (1999).

2 Unpublished data from the Public Service of Employment (RVA).

3 Ministerie van Tewerkstelling en Arbeid (1999).

4 Unpublished data from the Public Service of Medical Insurance (RIZIV).

and women. It can thus be said that the government is in the process of raising the normal statutory retirement age.

### Pathways to early exit

The most important reason for the decline in the activity rates of older workers over the last 20 years can be found in the frequent use of early exit routes. In Belgium, there are four essential early exit routes that many older workers use to leave the labour market before retirement age.

One of the two most commonly used early exit paths is the *conventional bridging pension*,<sup>1</sup> which has existed since 1985. Although there were plans to increase the minimum age limit for the bridging pension to 60 years during the 1999 sectoral agreements in order to reduce the outflow of older workers from the labour circuit, it will remain at 58 for the next two years.

In 1993, a new measure was introduced which made it possible for workers aged 55 or over to reduce their working time by half, while at the same time drawing a part-time conventional bridging pension. However, mainly due to the administrative complexity of this variant of the bridging pension, only 400 persons made use of this measure in 1998.

The second most common early exit route is the unemployment scheme for older unemployed.<sup>2</sup> In 1996, the government lowered the minimum age of eligibility for this measure from 55 to 50 years. As this group is not included in the official national unemployment figures, this operation has not brought about a considerable reduction in the official number of unemployed.

Another possibility for leaving the labour market before retirement age has been created by the introduction of the *part-time career break*.<sup>3</sup> Finally, the fourth early exit route is the *disablement insurance act*. Table 4 provides data on these four early exit routes between 1992 and 1998.

Table 4 shows that the number of older workers who left the labour market before retirement age increased by 16%, from 298,000 in 1992 to 346,000 in 1998. Also, the number of persons on part-time career breaks, for which we only have data since 1996, is clearly increasing: from 6,000 in 1996 to 8,000 in 1998.

At least four difficulties can be formulated with respect to this phenomenon of mass early exit:

1. The reinforcement of false stereotypes about older workers (resistant to changes, lack of creativity, slow judgement, low physical capacity, etc.), with the result

that only 3% of all workers recruited in Belgium in 1998 were aged over 45 (Denolf, Denys & Simoens, 1999). This percentage has remained constant since 1995.

In this context, we want to stress that national scientific investigations have clearly shown that most of these stereotypes do not match reality. Not only does there seem to be no significant link between age and performance at work (Simoens & Denys, 1997), but empirical evidence has also shown that there is no simple correlation in Belgium between age and wage costs. In 1996, a group of human resource managers calculated the real actual wage cost of about 17,000 workers. One of their conclusions was that there is no significant difference between

1 Workers aged at least 55–58 (in special circumstances aged 50–55) can leave the labour market under attractive financial conditions. The employer has to take the initiative by dismissing the employee.

2 Unemployed aged at least 50, if they have been unemployed for more than a year, are no longer required to be available to the labour market. They are not obliged to look actively for a job and keep their unemployment benefit until pension age.

3 Workers aged 50 or over are able to reduce their working time by half, whilst retaining part of their salary and receiving a career-break allowance. The employer endeavours to replace the part-time worker with an unemployed person.

the wage of a young worker and that of an older worker. In one company, the wage cost of a worker aged 50 or over was BEF 963 (EUR 23.87), whereas a worker under 30 received BEF 981 (EUR 24.31) (Koning Boudewijnstichting, 1996).

2. The trickle-down effect: these stereotypes towards older workers have clear negative effects for the younger age categories. This can be illustrated by the evolution of unemployment rates between 1983 and 1997. For males, the group with the lowest unemployment rates (or the best employment opportunities) shifted from 40/45 years to 30/35 years. For females, it shifted from 40/45 years to 25/30 years, which means that women aged over 30 already have less opportunities on the labour market because of their age. For more details, we refer to Table 5.
3. The high cost of the bridging pension scheme: this represents 0.75% of GDP, which is much higher than the average for all OECD countries (0.18%). In absolute figures, this scheme costs BEF 53 billion or EUR 1.31 billion a year.
4. The weak effect of the bridging pension: the most important justification for early retirement is the labour redistribution effect of the measure, because young unemployed would take on the jobs of older workers who leave the labour market. However, the total percentage of replacements in the case of the bridging pension is actually only 32%. This means that only one out of three early retirees is replaced by an unemployed person. This low degree of replacement can be explained by the fact that there are a lot of exemptions from the obligation to recruit (for instance, in a company experiencing economic problems).

**Table 5: Evolution of unemployment rates for men and women between 1983 and 1997: Flanders (in %)**

	Men			Women		
	1983	1990	1997	1983	1990	1997
20–25 years	20.1	7.2	9.9	30.3	11.9	15.1
25–30 years	11.9	4.7	6.6	28.8	11.0	12.3
30–35 years	9.0	4.1	6.0	27.8	14.1	13.3
35–40 years	9.0	4.2	6.7	25.5	16.8	14.6
40–45 years	8.8	5.4	7.8	21.7	20.1	18.0
45–50 years	10.9	7.2	9.7	24.1	26.2	24.5

Source: Public Service of Employment (RVA).

### Integration of older workers in the labour market

#### Reduction of employer social security contributions

Although in the end the government did not increase the minimum age limit for the conventional bridging pension from 58 to 60 years, and although it has lowered the minimum age for the unemployment scheme for older unemployed from 55 to 50 years, this same government has *simultaneously* introduced four initiatives in order to promote the integration of older workers in the labour force. These four measures will be discussed in the following.

Since January 1996, employers who recruit older jobseekers (aged 50 or over) who have been unemployed for at least six months enjoy a 50% reduction of their social security contribution during the first year following the recruitment. This reduction amounts to 25% after the first year for an unlimited period.

Because this measure is part of a general plan to reduce social security contributions for all kinds of risk groups, it is hard to obtain concrete data for the group of older workers. Because only 14% of the recruitments with a reduction of contributions concern persons aged 40 or over, one can assume that the measure has had a rather limited impact on the group of older workers.

#### Prohibition of age discrimination

The use of maximum age limits in job advertisements has the consequence

that a great number of older unemployed are not inclined to apply for these jobs. Furthermore, these age limits reinforce the (false) stereotype that over-50s are no longer able to remain active on the labour market. Precisely in order to provide greater job opportunities to older jobseekers, the recent law of 13 February 1998 prohibits the use of age limits in matters of selection and recruitment. No employers, neither in the private nor in the public sector, may now make use of maximum age limits throughout the entire recruitment process. The only exceptions are those jobs that are legally bound to certain age limits, such as jobs in the army. Although it is very hard to evaluate the impact of this recent law, it is hoped that it will provide a strong initial impetus for employers to ban all forms of age discrimination in the labour market.

#### Job opportunities for older jobseekers in the case of vacancies that are difficult to fill

In February 1999, the Flemish Minister of Employment asked the Flemish unemployment service to actively offer job opportunities to jobseekers aged 50 or over, and this specifically in the case of jobs that are difficult to fill. These older jobseekers should in the near future receive concrete job offers from the unemployment service. In 1997, the unemployment service registered about 28,000 jobs for which it was difficult to find a suitable candidate. At the moment, there are 16,000 older jobseekers in Flanders.

### Easy access to subsidised employment for older unemployed

The federal government has recently introduced several measures to create work for very long-term unemployed via subsidised (temporary) employment, for example via local agencies for employment (so-called LAEs), and via the activation measure of unemployment allowances in companies (so-called Smet jobs). Within the framework of the Belgian action plan for 1999, it has been decided that unemployed aged 45 or over can participate in these measures after an unemployment period of six months instead of two years. In introducing this measure, the government hopes to improve the re-integration opportunities for older unemployed.

### Developments at the level of companies and sectors

#### Restructuring the workforce

There are clear indications in Belgium that the first victims of restructuring are from the older workforce. This is due to the existence of the conventional bridging pension system for all workers aged 50 or over in companies that are recognised by the Ministry of Employment as "experiencing economic problems".

Unfortunately, it is impossible to measure the precise number of older employees who are forced to leave the labour market by means of the collective bridging pension system, because there are only data available on the number of companies that are recognised as experiencing economic problems, and not on the number of workers. As a consequence, when an employer dismisses more people than originally planned, this can by no means be controlled by the Ministry of Employment.

In this context, it is worth mentioning the case of Belgacom, the most important company in the telecommunications sector in Belgium. In 1997, more than 6,000 workers aged 50 or over were asked to leave the company via the bridging pen-

sion system. Up to the age of 60, they would receive three-quarters of their former salary. About 99% accepted the proposal. Two years later, in 1999, the company asked 170 of them to return to their jobs with new temporary – and financially interesting – contracts. Because of the internationalisation of the telecommunications market, their experience was needed urgently by the company. In the end, 60 ex-employees returned to work.

#### Company strategies/collective agreements

Despite these signs of both age discrimination in the event of restructuring and massive use of the conventional bridging pension by companies experiencing economic problems, measures will be discussed below that try to improve the weak labour market position of older workers.

#### Extra bonus for workers who remain in the labour market

In the building sector, the social partners agreed in 1999 that workers who remained on the labour market after the age of 58 would receive an extra bonus. The building sector is the first sector in Belgium to implement such an initiative. This can be explained by the fact that there is currently a severe shortage of workers in this sector. Many workers leave the labour market at the age of 56 via the bridging pension system.

Simultaneously, the new collective agreement introduces a pool for youngsters who have not yet finished their studies. They can be employed for short periods and in interim jobs in building companies. At the same time, they are offered the opportunity to receive additional training.

#### Temporary employment agencies for older workers

In June 1999, Randstad Interlabor, the Belgian market leader in temporary employment, opened the first agency in Brussels that is specifically oriented towards workers aged 45

and over; more such agencies are to be established in the near future. At the moment, the group aged 45 and older only represents 6.7% of the total population of temporary workers. Through these specific agencies, it is hoped that the employability of older workers will increase in the temporary work sector. The agency in Brussels provides personalised counselling and an active introduction of the workers in several companies. Information has been sent to 13,000 companies in the region in order to promote the new project.

#### Outplacement for older workers

Also in 1999, a project sponsored by the Koning Boudewijnstichting was launched with a view to organising outplacement services for unemployed aged 45 and over. This is considered necessary because most of the recruitment and selection activities in companies are done by young personnel managers who have just finished their studies and who often consider workers aged 45 and over as "being too old". Therefore, this group of workers needs extra help in finding a suitable job. An evaluation of the project after five months shows that 30% of participants have found a regular job, while another 14% are working independently or as a temporary worker. This is considered a success, given that most of these older workers had been unemployed for longer than two years.

#### Access to training for older workers

Since the interprofessional agreement of 1992, employers' and workers' representatives have agreed to incorporate the group of "older unemployed" (all unemployed aged 50 or more) in the target group of so-called "risk groups". In addition, older "threatened" workers (workers aged 50 or over who are or could be confronted in the near future with collective dismissals, restructuring or the introduction of new technologies) are being treated as a risk group. For these risk groups, a cer-

tain percentage (between 0.15% and 0.20%) of gross wages is exclusively reserved for training and employment measures.

However, the evaluation of the concrete results of this agreement is rather negative. Despite the fact that 10% of the collective agreements have explicitly incorporated the category of older workers/unemployed in the category of risk groups, concrete results remain very scarce. The two good practices we found are:

- the "part-time bridging pension, part-time training" measure in the building sector, which entails older workers entering partial retirement via the bridging pension system and training for youngsters in the sector during their working time;
- the Cevora "train the trainer" project, which entails older employees training youngsters in the employees committee's/works council's training centre.

The under-representation of *older workers* in matters of training can also be illustrated via the share of older workers in all kinds of internal/external vocational training. Table 6 shows that the share of those aged 45 or over is only 12%, although this age group represents 18% of the total labour population.

The situation of *older unemployed* is even worse than that of older workers: although those aged 40 and over represent 34% of the population of non-working jobseekers, their share in the total number of participants in vocational training for unemployed organised by the public employment service is only 11%.

## Prospects of older workers

Despite the recent initiatives concerning the retention and reintegration of older workers in the labour market, there are clear signs that this group remains very weak:

- Only 3% of all the workers recruited in 1998 were aged over 45.

**Table 6: Share of participants in internal and/or external training by age group (in %)**

	Share of participants in training	Share of total labour force
< 25 years	16.8	12.6
25-34 years	42.2	40.0
35-44 years	29.0	29.4
+ 45 years	12.1	18.0
Total	100.0	100.0

Source: Van Assche et al. (1996).

- There is a clear under-representation of the older age groups in matters of training.
- Older workers are very often the first victims of restructuring and reorganisation.
- Unemployment rates start to increase at the age of 35 for men and as early as the age of 30 for women (see Table 5).

A recent study (Centre for Economic Studies, 1999) of 700 active workers in Flanders revealed that 85% believe that the normal retirement age should be lowered. Most of them would like to withdraw from the labour market at the age of 57, which corresponds approximately to the minimum age in the bridging pension system. The lower income groups are more in favour of a lowering of the normal retirement age than are the higher income groups (90% and 75%, respectively). This call for early retirement is not only identifiable among the older generation, but also among youngsters. Whereas older workers would like to retire at the age of 57.9 years, youngsters are calling for a definitive retirement from the labour market at the age of 56.4 years.

Only one out of ten workers seems to favour an increase in the minimum retirement age as a solution to the ageing of the population and the financing of pensions. Thirty percent think that pension allowances could be lowered. The biggest group, sixty percent, opts for an increase in the pension contributions.

## Conclusions: policy options

### The incorporation of the different facets of an age-conscious personnel policy in collective agreements

Because the working population is ageing, and because many older workers are forced to leave the labour market before retirement age and sometimes against their will, more and more people are calling for the introduction of a so-called age-conscious personnel policy within firms. The rationale for such a policy lies in the idea that employees should remain employable for as long as possible and stay in the labour force until retirement age. Scientific investigations have demonstrated that such a personnel policy improves the general quality of labour of all employees and that it reduces conflicts, absenteeism, lack of motivation, stress and premature obsolescence. The concrete elements of an age-conscious personnel policy are, among others, lifelong learning, regular career consultations, horizontal mobility and ergonomic measures.

A recent inquiry among Belgian personnel managers indicates that a great deal of improvement is possible with regard to the situation of older employees in companies. Only 11% of personnel managers believed, however, that any measure for older employees will be included in the collective wage agreement, compared with 58% who believe that one or more measures should be included. Particularly with regard to the right of older people to specially adapted work, and the option of ex-



emption from shift work, overtime and irregular hours, there is great discrepancy between the (low level of) actual provision and the (high level of) desirability (Simoens, Van Hoof et al., 1996).

### The need for government action

It is clear that the introduction of an age-conscious personnel policy will not find its way into companies without corresponding action by the government. Therefore, it is considered necessary for the government to take active steps towards an improvement of the labour market position of older workers.

It is obvious that the government, being an important employer, could start an age-conscious personnel policy in the public sector. Beside giving a good example, there are other possibilities that are briefly discussed in the following. We make a distinction here between measures aimed at older workers and measures for older unemployed.

For the group of older workers in the private sector, the government could provide subsidies to firms that provide work to a certain percentage of its personnel older than 50. In this context, the proposition of former Prime Minister Dehaene can be mentioned, that is, to provide premiums for keeping older workers in the labour force; this proposition was launched in October 1997 and reformulated in May 1999. The public authorities could also introduce a right to collective outplacement for older workers who are looking for another job. It is evident in this context that the recent prohibition of age criteria in recruitment and selection (e.g. in advertisements) is already a good measure. There are several possibilities on the pull side, such as a simplification of the existing complicated system of part-time bridging pension and an elaboration of other, more flexible and individualised, exit routes that would partly replace the bridging pension, e.g. by promoting career breaks (see below).

As regards the group of older unemployed, several measures are being discussed in the literature. All aim at helping the older unemployed to find a suitable job more easily:

- agreements with the public employment service so that a greater number of older employees can be placed in a new job;
- subsidies for the creation of new labour market niches (e.g. in the field of the social economy);
- further initiatives to make the temporary employment agencies more age-friendly.

It is evident that the different strategies briefly outlined above cannot be considered completely independent of each other. For instance, it is unimaginable that the existing system of full-time bridging pension would be abolished without at the same time introducing measures in the companies to maintain older workers in the labour market.

### Towards innovative solutions: the expansion of career breaks as a good alternative to early exits

The implementation of a direct policy of "active ageing" in the form of an age-conscious personnel policy can only be observed in a few companies. Therefore, it is also crucial to investigate other, and maybe more indirect, solutions, such as the expansion of the already existing career-break scheme. The defenders of the early exit schemes (such as the conventional bridging pension) underline in their call for the maintenance of the measure the role that it plays in the struggle against unemployment. Contrary to this philosophy of limiting labour supply in order to combat unemployment, we feel that there are better measures than early retirement. Taking into account the demographic pressure of the ageing population and the disadvantages of the bridging pension, we argue for the possibility of a general interruption of the professional career as a right for every employee, through

the extension of the existing career-break scheme.

The career-break system was introduced in 1985. Belgium was the first country in the European Union to establish such a measure. Career breaks offer a possibility to the employee, if desired, to temporarily suspend professional activities for a maximum of 60 months. There is also a possibility to reduce professional activity by 1/5, 1/4, 1/3 or 1/2. A monthly income is guaranteed during the break. The employee on a career break is replaced by an unemployed person. Career breaks are universally applicable in the public sector. In the private sector, the right must be incorporated in sectoral collective agreements. The consent of the employer is required. Recently, the Belgian government has decided to expand the right to a career break to 3% instead of 1% of workers (for companies where there is no collective agreement on career breaks).

We call for an increase of the allowances in the case of career breaks and for a general right to the system in the private sector, because it has many advantages in comparison with the bridging pension. Contrary to the bridging pension, the career-break system (1) involves no age discrimination, (2) is not compulsory and (3) is approximately three times cheaper than the bridging pension.<sup>4</sup>

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<sup>4</sup> The bridging pension costs BFR 53 billion a year, or BFR 410.000 per person on a full-time bridging pension. Career breaks cost BFR 5 billion a year, or BFR 138.000 per person on a full-time career break (cf. Ministerie van Tewerkstelling en Arbeid, 1999).

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## Denmark

### Introduction

As regards ageing, the situation in Denmark is similar to most other EU countries. While the total size of the working-age population will remain fairly stable, the structure of both the population and the workforce is changing.

One important trend is an increase in the number of persons above retirement age measured as a share of the workforce. Thus, the share of those aged over 67 in relation to those aged 15-66 is predicted to increase from 19% in 1998 to 30% in 2035. The share of the over-60s in relation to those in the age group 15-59 years is expected to increase from 32% in 1998 to 51% in 2035. In both cases, the sharp increase will mainly take place after 2005 (Finansministeriet, 1999, Table 6.1).

Another important trend is the changing composition of the workforce, which is being skewed towards the older age groups, while at the same time the number of persons in the 15-49 age group and of new entrants to the labour market is falling (Regeringen, 1999, Table 2.1).

The development of the workforce has not been of a purely demographic nature. While the participation rate of older workers is rather high in Denmark compared to other

EU countries, the "unemployment retirement allowance" for persons aged 60-67 years, which was introduced in 1979 (see below), has contributed to a fall in the average retirement age. Thus, the average actual age of retirement had fallen from 63 in 1969-70 to 60 in 1995-96 (men 61 years and women 59 years; cf. Danmarks Statistik, 1998, Table 9).

Furthermore, since 1993, the supply of labour has been falling due to a declining participation rate caused by the expansion of various leave schemes, while the increase in the number of older workers taking early retirement has continued.

Concerning unemployment, available information indicates that the risk of becoming unemployed is not

significantly higher for older workers than for others. But once older workers have become unemployed, their chances of returning to work are much lower than for the younger age groups (DA, 1997, p. 44). Thus, more than two out of three unemployed persons aged under 25 return to employment within two years, whereas only one in four of unemployed persons aged over 50 find new employment (Ingerslev and Pedersen, 1997, p. 18).

Table 1 gives an impression of the changes in the labour market attachment of older workers from 1980 to 1994.

Whereas the labour market attachment of the 50-59 age group did not change dramatically, the opposite is the case for the oldest age

**Table 1: Labour market attachment of older workers, 1980 and 1994 (in %)**

	50-59 years		60-66 years	
	1980	1994	1980	1994
In the workforce	75.1	80.8	40.6	30.5
Employed	70.7	70.6	38.8	27.0
Unemployed	4.4	10.2	1.8	3.5
Outside workforce	24.9	19.1	59.3	69.4
Unemployment retirement allowance, etc.	0	2.0	14.7	34.3
Invalidity pension	9.7	12.3	23.5	26.1
Others	15.2	4.9	21.1	9.0
Total	100.0	100.0	100.0	100.0

Source: DA (1997, Table 3.2).

group. Here, less than one third was still in the workforce in 1994, while the share of persons on unemployment retirement allowance more than doubled, from 14 percent in 1980 to 34 percent in 1994.

There are several possible explanations for this fall in the actual retirement age, apart from the introduction of special programmes to support early retirement (such as unemployment retirement allowance). Thus, one should also mention the long-lasting high level of unemployment, the expansion of tax-subsidised private pension schemes and the increased economic freedom of older house-owners who have paid off their mortgages.

Not surprisingly, these changes (actual or forecasted) have given rise to a number of political debates and proposed changes in strategy related to:

- the increased demands on the Danish welfare state stemming from the expected growth in the older age-groups, whose need for caring and health services is higher than average (Det økonomiske Rad, 1998; Finansministeriet, 1999; Ministry of Finance, 1999);
- changes in the distribution of income and consumption between the productive and non-productive parts of the population, leading to discussions about reforms in the public and private pension systems and the role of the taxation system in providing incentives for early retirement;
- concerns about the consequences of the stagnating or falling supply of labour both in the short and the longer run (Finansministeriet, 1999). The short-run concerns for the supply of labour have of course been fuelled by the strong economic upswing and fall in unemployment on the Danish labour market since 1994.

## Changes in the policy framework: recent trends

From 1970 to 1996, the share of adult persons (aged 18–66 years)

supported by transfer income (unemployment benefit, invalidity pension, etc.) increased from 10% to 28% (Danmarks Statistik, 1998, p. 7). Not surprisingly, this development has led to widespread concern about the economic burden placed on the economically active population. Thus, the debate on ageing and early retirement is linked to these more general problems (Regeringen, 1997).

### Policies concerning the retirement age and early exit

Since 1970, all persons over 67 years of age have been eligible for the public old-age pension, though the amount paid depends on whether the recipient has supplementary earned income. In many private firms, the compulsory retirement age is 67 years. In the public sector, retirement must take place no later than the age of 70.

For a number of reasons, the actual average retirement age in Denmark is significantly lower than 67 (cf. above). This is due to a number of factors, including the existence of several schemes allowing for early retirement from work.

The most important of these schemes is the so-called unemployment retirement allowance (*Efterløn*), which was introduced in 1979 as a response to the high and rising level of unemployment in the 1970s. This scheme meant that members of an unemployment insurance fund aged 60–66 years could choose to retire and receive a public pension defined as a share of unemployment benefit. The share was 100% of benefits for the first 2½ years and was then gradually reduced. It was not a condition for the person to be actually unemployed at the time of retirement, but membership of the unemployment insurance fund had to have existed for 10 of the last 15 years. The scheme proved to be very popular – and costly to the state budget – and it was tightened on a number of occasions in the 1980s and 1990s. From 1995, it has been possible to receive the allowance on a part-time basis to in-

duce a more flexible early retirement pattern. The rationale behind the unemployment retirement allowance was to allow older unemployed workers to retire during a period of labour surplus, but also to create job openings for younger persons when employed older workers decided to take the opportunity of the retirement benefit instead of staying in the job until the age of 67. The number of recipients has been steadily growing. In 1998, a total of 140,900 persons received the allowance.

Against the background of the steep increase in Danish unemployment in the early 1990s, a special scheme for long-term unemployed members of unemployment insurance funds was introduced in 1992. This so-called transitional allowance (*Overgangsydelse*) implied that long-term unemployed persons aged 55–59 could retire and receive a pension equal to unemployment benefit. In 1994, the age group was extended to 50–59 years of age, and the benefit paid was set at 82% of unemployment benefit. The scheme was extremely popular and in 1996 attracted a maximum of 46,000 participants. Entrance to the scheme was abolished in the same year and the scheme is now being phased out.

In 1987, a part-time pension was introduced which was to allow both wage-earners and self-employed aged 60–66 years to retire on a part-time basis while receiving an allowance calculated on the basis of the level of unemployment benefit. The total number of recipients of a part-time pension in 1997 was 4,500 persons.

Persons aged under 67 years who are permanently unable to support themselves due to physical or mental handicaps are eligible for invalidity pension. The age limit will fall to 65 years with the lowering of the age limit for old-age pensions in 1999. There are three pension levels. The two highest levels are for persons with obvious and serious health problems, while persons with lesser problems who have nonetheless been unable to support themselves

for a longer period of time will normally receive the lowest level (under what is sometimes termed "social indications"). In January of 1998, 160,000 persons received one of the two highest levels, while 107,000 persons received the lowest level of invalidity pension. The highest level amounted to DKK 12,300 per month (almost equal to maximum unemployment benefit).

For persons who are eligible for an invalidity pension but do not receive it, a special wage subsidy ("flexi-jobs") is available. The subsidy is paid to the employer and amounts to between one third and two-thirds of normal wages. For persons who actually receive invalidity pension, a subsidy (for "protected" jobs) can be paid to the employer. The subsidy amounts to no more than half of the wage cost. Employment in protected jobs is normally part time. The number of these two types of jobs in the spring of 1999 was about 10,000.

Table 2 shows the development of the total number of full-time workers receiving various forms of pensions from 1970 to 1996. Most impressive is the sharp increase in the number of recipients of the unemployment retirement benefit and the transitional allowance.

The rise in the number of older workers retiring from the labour market has led in recent years – in the light of the tightened situation on the Danish labour market – to a number of political actions to reverse the trends shown in Table 2. The abolition of the transitional allowance in 1995–96 is one example, while another is changes regarding the unemployment retirement allowance from 1999 onwards. The changes imply stricter eligibility criteria, deductions for private pension schemes and a special tax allowance for eligible persons who postpone their actual retirement until the age of 62 (see below).

### Training and lifelong learning for older workers

One barrier to hiring middle-aged or older workers is the assumption that

**Table 2: Number of full-time workers receiving various forms of pensions, 1970 to 1996 (in 1,000s)**

	1970	1980	1996
Old-age pension	568	677	705
Unemployment retirement benefit, etc.*	0	54	167
Invalidity pension	205	236	270
Total employment	2,039	2,289	2,598
* Includes transitional allowance and part-time pensions.			
Source: Danmarks Statistik (1998, Tables 1 and 2).			

they are less motivated to engage in further training or lifelong learning. To some extent this assumption can be based on the actual participation patterns of older workers.

Denmark has a long tradition of adult education. Thus, more than 80% of firms offer training and education to their employees – compared to an EU average of about 60%. Furthermore, there are no formal barriers to older workers participating in further education and training, and the firms maintain that older workers receive the same offers as the rest of the staff (DA, 1997, p. 134). On the other hand, only 13% of the participants in formal vocational education in 1994–95 were older than 50 years. For the group over 50 years of age, participation in adult education diminishes with age. As a share of the workforce, 7% of the persons aged 50–55 participated in adult education in 1994–95 as against only 1% of those aged over 60. Moreover, there is a clear link for older workers to previous educational attainment: more workers with previous vocational education will continue to participate in adult education when they get older. The propensity to participate is also higher among the employed than the unemployed (also see the above discussion of discrimination towards older unemployed in active labour market programmes).

A major barrier to adult education for older workers, therefore, seems to be their weak educational background. Also, one could suspect that firms – in spite of the attitudes expressed – give a lower priority to fur-

ther education for older workers, simply because the economic benefit will be smaller due to the shorter remaining duration of their active working life.

### Labour market programmes for older unemployed

In principle, older unemployed between 50 and 60 years of age have the same rights and obligations as other unemployed. Thus, they are entitled to unemployment benefits for 2½ years and to receive job training and other provisions under active labour market policy, but they are not obliged to take part in activation.

However, as indicated by the introduction of the unemployment retirement allowance in 1979 and the transitional allowance in 1992, the main strategy towards these groups has been to ease their way into early retirement, accepting that in reality the chances for older unemployed to regain employment are significantly smaller than for the younger age groups. Also, a special rule made it possible for unemployed persons aged between 50 and 54 years, who would become eligible for unemployment retirement allowance at age 60, to receive benefits for up to 10 years (instead of the normal 5 years).

The result was that significantly fewer unemployed were taking part in active measures among the older age groups than among the younger. In 1996, for example, only 4% of the unemployed aged 60–69 were activated. For the 50–59 age group, the share was 20%, while about 30% of the younger age groups were activ-

ated during the first quarter of 1996 (DA, 1997, p. 124). Age discrimination is evident.

In reaction to lower general unemployment in recent years, the strategy towards older unemployed is now undergoing a considerable change. Thus, since 1998, the unemployed aged over 50 years have been selected by the National Labour Market Council as a special target group. The Regional Labour Market Councils, which implement active labour market policy, are to see that more older unemployed become re-employed. The share of the older unemployed undergoing early activation must not be less than that for other age groups. In addition, the above-mentioned special rule for unemployed aged 50–54 years was abolished in January of 1999.

However, no special activation instruments have been developed for the older unemployed. The view is that the instruments that apply to other age groups can be combined and tailored to fulfil the needs of the older unemployed (2005-udvalget, 1998, pp. 55–58). One should note that this is a general feature of Danish labour market policy and similar to the situation for ethnic minorities, who also normally receive the same offers as other groups. This does not exclude the possibility that a specific project can be set up by the Regional Labour Market Council, combining the available instruments (training, wage subsidies, etc.) to fit the needs of a particular target group, for instance among the older unemployed. But this will be done on an ad hoc basis, not as a permanent programme.

Given the wide range of potential or perceived consequences of an ageing population, ideas about “active ageing” have been developed in a number of different policy areas.

In relation to consequences for the welfare state, “active ageing” of course implies strategies to keep older persons healthy, self-supporting and living in their own homes for as long as possible. With respect to the labour market, “active ageing” has led to considerations concerning:

- the economic incentives for early or flexible retirement;
- increased emphasis on upgrading the qualifications of the older segments of the workforce (including the older unemployed);
- concerns about how to change the attitudes of employers towards older persons in the workforce.

### Developments at the level of companies and sectors

In connection with the negotiations concerning collective agreements in 1997, the question of policies in relation to older workers (labelled “senior employees policy”) was high on the agenda. As a result, special chapters stressing the need for more explicit policies towards older workers or specifying the special rights of these workers were included in many agreements, most explicitly in the public sector. For instance, in the agreement between the municipalities and the trade unions, employees over 52 years of age may work part time while keeping full pension rights. Favourable retirement benefits are also possible, but there is a marked change from seeing senior employees policy as a form of retirement policy to using it as an instrument to retain older employees on the job (Kristensen, 1999).

Furthermore, joint ventures of the Ministry of Labour and the Ministry of Social Affairs have in recent years launched a number of activities and campaigns in order to stimulate the employment of persons with various types of handicaps as far as their employability is concerned (Arbejdsministeriet & Socialministeriet, 1997). This development has been supported by the social partners. In the collective agreements of 1995, so-called “social chapters” were included in most agreements, implying that almost 90% of wage-earners are covered. These chapters recommend employment under special conditions (working time, wages, etc.) for persons with handicaps – including older workers (DA, 1997, p. 72).

A number of surveys indicate that there is a visible increase in the share of firms having a senior employees policy as part of their personnel management. A survey from 1994 suggests that about half of the firms with more than 10 employees have special schemes for older workers (DA, 1997, p. 53). Firms state that they reap considerable benefits from keeping older workers on the job, such as preserving the human capital invested and perceiving older workers as being more stable.

In 1997, the Danish National Institute of Social Research conducted a special survey concerning the social responsibility of firms (Holt, 1998). One result is that 61% of the firms with employees aged over 60 have offered these employees the following special conditions:

- possibility for part-time work: 50%;
- change of job within firm: 29%;
- benefit in relation to retirement: 20%.

Thus, part-time employment is the most common offer to older employees (Holt, 1998, Table 1.2). The high share of companies offering some type of scheme to older employees is supported by other evidence. A survey in two counties conducted for the Ministry of Social Affairs in 1994 (cited in DA, 1997, p.55) indicated the following shares of firms offering various possibilities:

- 82% offered part-time work;
- 56% offered a change of job;
- 39% offered retraining for a new job;
- 23% offered various forms of relief;
- 20% offered advice of some kind.

A recent case study conducted for the Ministry of Labour looked at the situation of older workers in ten Danish firms (Ipsen et al., 1998). A number of barriers to employing older workers were revealed:

- the existence of job ladders, where entry jobs are seen as the beginning of a long-term career in the firm; this situation naturally discriminates towards older applicants for new jobs;



- the image of younger employees as being more flexible and more motivated for training and further education.

In many cases, the firms have not even considered the potential advantages of hiring older workers. On the other hand, half of the firms in the study have or plan to develop a senior employees policy. A further impression is that the norm of retiring at the age of 60 is widespread both among employers and employees. Thus, policies to keep older workers active are considered relevant mostly for persons aged 50 to 60.

Two instruments dominate the strategy to keep older workers in the company:

- the shifting of older workers to jobs within the firm that are less demanding;
- part-time employment.

Thus, the results of the surveys are also supported by this recent case study.

## Perspectives of older workers

The perspectives of the older workers themselves concerning their attitudes towards work and retirement can be attacked from a number of different angles that concern both the individual incentives for older workers and their attitudes towards work, education and leisure (Hansen, 1999).

A detailed survey from 1996 covering the workforce in general also looked at the expected retirement age (Pedersen, 1998). This study revealed that:

- The expected age of retirement is lower for the younger age groups than for the older groups.
- Expected retirement age increases with the duration of formal education, but not proportionally.
- Similarly, expected retirement age is low for unskilled workers (60 years) and higher for salaried employees.

Whether the combination of these factors over time will lead to a higher

or lower actual retirement age is hard to predict. Compared with a previous study in 1994, there seems to be a slight increase in the expected retirement age (from 61.46 years to 61.62 years).

When looking at the relationship between gross income and expected retirement age, one finds a U-shaped relationship, with expected retirement age being higher for low-income and high-income groups than for the middle-income segment (Pedersen, 1998, pp. 160–62).

More than two-thirds of the adult population (70% in 1996) has some form of supplementary pension coverage (apart from the public old-age pension), a share that has been increasing rapidly in recent years. The dominant forms of supplementary pension in 1996 were employer-related pension schemes (48%) and tax-subsidised private pension savings (44%). Many people have more than one form of pension. When asked which source of income would be the most important after retirement, 43% referred to such pension schemes, while 46% mentioned the unemployment retirement allowance as the source of income expected to be most important.

Less than 10% of those who retire do so gradually. This finding is in contrast with the expressed attitudes of the members of the workforce, where 55% would prefer a more gradual retirement (Nørregaard, 1996). On the other hand, eight out of ten retiring on unemployment retirement allowance (almost all of them entering full retirement) express the view that they do so voluntarily (DA, 1997, p. 83). They mention reasons such as “finding time for something else in life” (52%) and “being with family and friends” (41%) as the most important positive reasons. By contrast, only one third of the recipients of the transitional allowance felt that they retired solely through their own choice.

Among the motives mentioned for retiring, “health problems” are put forward by 28% of the recipients of unemployment retirement allowance

and by almost half of the recipients of transitional allowance. This could be one explanation of why gradual retirement is not an option for this group.

Another explanation of the paradox between the expressed preference for gradual retirement and actual retirement behaviour could be the fact that the economic advantage from gradual retirement until the reforms in 1999 was very small – especially among the lower income groups. Thus, an unskilled worker who reduced working time to 20 hours per week and received a public part-time pension would receive a net income equal to 85% of the previous income; if the same person retired fully, the degree of compensation would be 75%; and if the person worked the 200 hours allowed per year while receiving the full unemployment retirement allowance, he or she would receive the same net income as a person working 20 hours per week and drawing a part-time pension. The economic incentive for gradual retirement simply did not exist (DA, 1997, p. 118).

## Summing up: supply of and demand for older workers

This final section looks at the current policy debate in Denmark and focuses on the new strategies being implemented in relation to “active ageing”. The following points are discussed:

- changes in the economic incentives for retirement (supply-side measures);
- strategies to increase the demand for older workers (demand-side measures).

## The economic incentives for early retirement

As described above, one of the remarkable changes in recent years in relation to older workers has been the sharp increase in the number of persons retiring before the official retirement age of 67 (as defined by the

old-age pension). In reaction to this development, a major reform of the unemployment retirement allowance is now being implemented (Arbejdsministeriet, 1998). The main elements of the reform are:

- Increased flexibility with regard to working time, making it possible for the individual to retire on a part-time basis, where earned income will be deducted from the allowance based on the actual number of hours worked. Thus, the special part-time allowance will disappear.
- A number of economic incentives that make it profitable to postpone retirement age to two years after the age of eligibility for unemployment retirement allowance.
- Stricter eligibility conditions for the allowance and the introduction of a special contribution paid by the employees. When the new scheme is fully implemented, a person must pay this contribution for no less than 25 years in order to become eligible and must also, during the same period, have been a member of an unemployment insurance fund.

As a part of the reform, the age limit for the old-age pension will be reduced to 65 years. At the same time, the economic incentives for recipients to work will be improved somewhat.

### Increasing the demand for older workers

As part of the general strategy to create a "broader" labour market for persons at risk of marginalisation, in recent years increased attention has been given to various ways to make firms more interested in keeping older workers on the job. These include a number of activities, some of which have already been mentioned above:

- the inclusion of special "social chapters" or chapters on "senior employees policy" in most collective agreements since 1995;
- the efforts of a government committee on "jobs with special condi-

tions" (cf. Arbejdsministeriet & Socialministeriet, 1997);

- establishing a centre for the development of "jobs with special conditions" as a follow-up to the "social chapters" in the collective agreements.

With special reference to the concept of "active ageing", in 1997 the Minister of Labour set up a government committee with representatives from the social partners on senior employees policy (Wolthers, 1999). The committee has launched a number of initiatives, including a programme which offers free consultancy to firms wishing to develop a senior employees policy. The committee has also funded some 86 individual projects at a total cost of DKK 25 million (ECU 3.5 million). The funding covers 50% of the total expenses. About 75% of the projects are targeted at employed older workers, while the remainder aim at reintegrating older unemployed on the labour market. Among the projects are (Arbejdsformidlingen, 1999):

- a project by a large retail chain to open a supermarket staffed solely with persons aged 45 and above;
- a project by a private manufacturing company aimed at setting up individual programmes for training and education for all employees aged 50 and over;
- a project at a public hospital which will set up special seminars for senior employees in order to create discussions and awareness of the possibilities to remain in the labour market;
- a manufacturer of kitchen utensils screening all work processes in order to adapt them to senior workers wherever possible.

The activities of the committee will be evaluated in late 1999.

### Summing up on policy perspectives

From the information presented here, it is evident that the challenges raised by the ageing of the workforce have been high on the Danish political agenda since the mid-1990s.

This is the result both of long-term considerations concerning the changing demographic composition of the Danish population in the first half of the next century and of a more acute fear of labour shortages in relation to the current low level of unemployment.

The political strategy implemented consists of two main elements. One is to make early retirement less economically attractive to the older part of the workforce and thereby remove some of the economic incentives influencing the current downward trend in the average retirement age. The other strategy is to increase the awareness of both firms and older workers of the qualifications and potentials of senior employees and of the possibilities to relocate older workers and to use various forms of flexible retirement strategies. Both strategies have only been implemented recently, and it is still too early to tell the degree to which they will prove to be successful.

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## Germany

### Introduction

The population in Germany is already ageing, and, according to current population projections, demographic change will speed up during the coming decades. The official population forecast of the Federal Statistical Office (Table 1) predicts that the age ratio – defined as the relationship between the population aged 65 or over and the working-age population (20–65) – will have increased to 48.4% by the year 2040, that is, to more than double the age ratio in 1995. The increase appears to be the consequence of both declining birth rates and rising life expectancy. In western Germany, the fertility rate has declined markedly, from a peak of 2.1 births per woman in the mid-1960s to 1.3 in 1995. Life expectancy in western Germany has increased since 1950 by nearly eight years for the male population and ten years for the female population. In general, it is assumed that life expectancy will continue to increase. Long-term population projections predict a rising population until 2010 and an acceler-

ating decline thereafter. The rise during the next decade will be the result of continuing net immigration. For the following decades, more or less constant immigration flows are expected; the forecasts, however, vary widely on this point.

The ageing of the population is reflected in an ageing and shrinking workforce. In absolute figures, the labour force will decline by 9 million to 33 million by 2030 (Thon, 1995). The share of workers aged 50 or over will rise from 23% to 34% by 2020 and decline slightly afterwards. However, demographic changes are

not the main problem related to ageing on the labour market. The persistence of high unemployment is much more important, because it leads to continuing exclusion of older workers. The unemployment rate of persons aged 55 to 60 rose from 15.2% in 1992 to 22.4% in 1998. Most important, for unemployed persons aged 45 or over, the prospects for re-entering the labour market are very gloomy, especially for those with a low level of education and health problems.

Of course, ageing is a matter of social debate in Germany, given that it

**Table 1: Population forecast**

	Unit	1995	2010	2040
Population	million	81.9	83.9	72.1
Age ratio (65+)	%	22.6	30.0	48.4
Youth ratio (< 20)	%	23.8	20.1	19.9
Fertility rate	births per woman	1.3	1.4	1.4
Life expectancy (at birth)	years	76.4	77.3	77.2
Net immigration per year	% of population	0.6	0.3	0.3

Source: Federal Statistics Office.

creates serious financial burdens for the social system and opens up an intergenerational conflict as to how to solve the problem. Generational accounting shows that a tremendous and constantly rising financial burden is being shifted to future generations. The role of aged persons in the labour market and the distribution of income between generations is therefore being re-evaluated in the public and academic debate. Ageing ties into the economic debate via two major links. One link leads to the debate on non-wage labour costs, which warns that the rising share of inactive older workers will increase non-wage labour costs and thus squeeze labour out of production. Moreover, productivity will increase as a result, and the rise in unemployment might be further accelerated. The other link is related to the productivity debate, which perceives ageing as a barrier to technical progress and future productivity growth.

## Changes in the policy framework: recent trends

### Pension reforms

The Statutory Pension Reform Act of 1992 had the aim of stabilising contribution rates in the medium term and lowering their increase in the long term. Under the 1992 reform, the pension age will be raised from 60 for women and 63 for men to 65 years for both sexes by 2012. Moreover, early retirement has been restricted by a lowering of pension levels, family-oriented elements have been reinforced, and the financial contribution from the federal tax budget is set to increase. The new "Red-Green" (the Social Democrats and the Environmental Party) government has abolished the 1999 reform planned by the former conservative-liberal government and submitted a new proposal. The starting point for both proposals is the prospect that, without pension reform, contribution rates must be expected to rise to 22% of gross wages by 2010 and to almost 30%

by 2040 (Sinn & Thum, 1999). The new government's proposal suggests using the increase in energy taxes to keep contribution rates for statutory pensions under 20% until 2020, to limit the increase in average pension payments to the inflation rate for two years and to introduce additional capital-funded pensions for workers. These measures will lower net pensions from 70% to 67% of net wages.

The direction of the proposal is similar to that of the former German government, which wanted to introduce a "demographic factor" for the calculation of statutory pension levels. Pensions, which are increased each year in line with changes in average net earnings, would be calculated by considering the increase in life expectancy. Thus, rising life expectancy would lower the annual increase of pensions. The adjustment would have reduced the long-term value of pensions from 70% to 64% of net wages by 2030.

Statutory pension reforms in Germany therefore follow a double strategy to counteract the effects of rising life expectancy and early retirement. The extension of working life has already been decided and will certainly affect the labour market directly by raising the participation rates of older workers during the next decade. The alternative of reducing average pension levels is still under debate, but a principle of reduction is contained in all proposals. This will affect income distribution directly, but will also increase the private savings of younger generations, who must expect a relative decline in statutory pensions.

### Pathways to early exit and gradual retirement

Early retirement has been widespread in recent years. It has had no effect on pension payments to individuals, and it represented a relatively cheap way for companies to reduce staff. Moreover, unemployment among persons aged 55 or older has been above the average rate. At the

same time, Germany was quite successful in keeping youth unemployment at a low level for many years. However, in the light of demographic changes, the policy of early retirement has radically changed. One of the major elements of the pension reform of 1992 was lowering pension levels in the case of early retirement. The reduction amounts to 3.6% per each year of retirement before (rising) pension age.

The Pension Reform Act of 1992 also aimed at reinforcing gradual retirement and partial pension schemes. A contributor with pension entitlements can choose between drawing a full or a partial pension. For the partial pension, there is a choice between receiving one third, one half or two-thirds of the full pension. The less an eligible person claims, the more he or she is allowed to earn in addition to his or her pension. But the earning ceilings are perceived as being too restrictive. The results of several case studies demonstrate that the partial pension is not financially attractive for employees (Schmähl, George & Oswald, 1996).

### Labour market policy

While older workers are highly dependent on public support to escape from unemployment or even to stay in their jobs, they are clearly under-represented in labour market policy measures. Only 5% of the unemployed in training programmes were aged 45 or over in 1998, but the share of older workers in total unemployment was 33% (all figures for western Germany). The share of older workers in job-creation programmes was about 20%, while they accounted for 12% in the wage-subsidy programme for long-term unemployed. The specific wage subsidies granted for older workers were very limited. Only 2.3% of the unemployed aged 45 or over were supported by this programme. These figures make it very clear that employment for older workers is not a priority in German labour market policy. Until now, the exclusion of older workers was more or less accepted

by public institutions, and income support was provided in the form of disability pensions and early retirement schemes.

### Flexible retirement

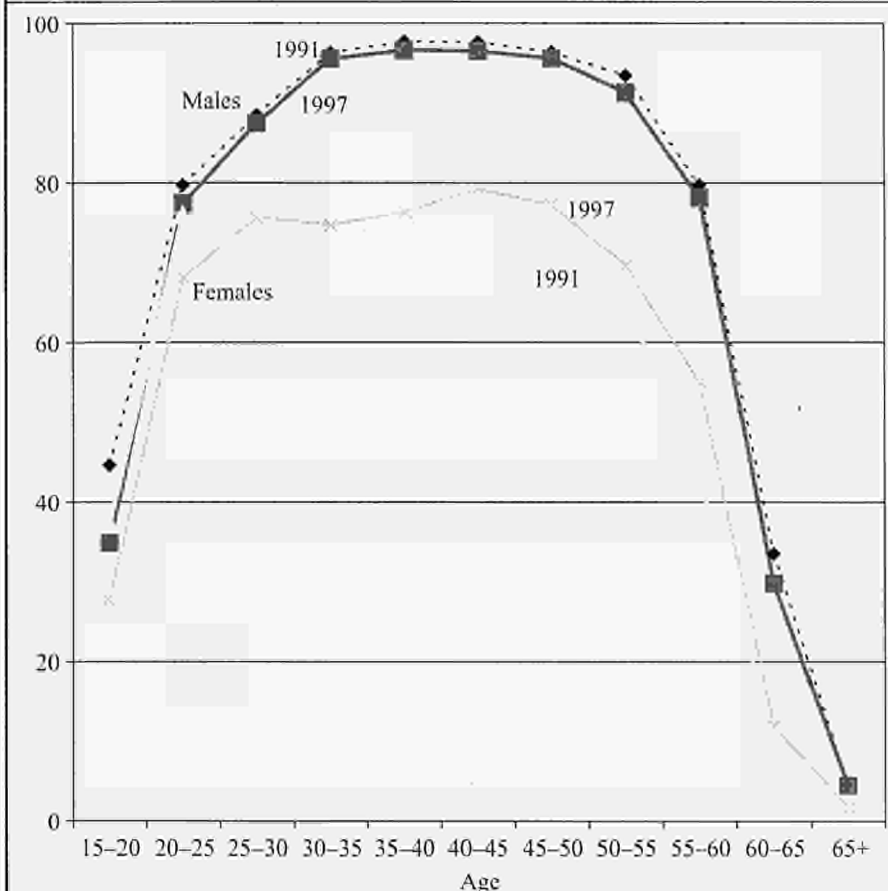
A further pillar of the current reforms consists in promoting gradual retirement from the age of 55 upwards (Gradual Retirement Act of 1996). The net wages of older employees who reduce their average weekly working hours by half will be at least 70% of their former net wages. For the next five years, employers can receive subsidies from the Federal Employment Office if they employ an unemployed person or an apprentice on a part-time basis. The part-time scheme for older workers will grant the same eligibility for early retirement (after two years of part-time work) as for long-term unemployment. By the end of 1997, around 70 collective agreements implementing this special part-time scheme for older workers had been signed, covering 5.5 million persons and thus around 18% of all employees (Bundesanstalt für Arbeit, 1999). In the recent past, very few employees have made use of this option, as people normally do not want their income to be cut even if they have to work less and, moreover, they prefer to retire early. This scheme has not been attractive financially for either employees or employers. However, the conditions for this type of gradual retirement were recently improved by law (1998 law on social security aspects of flexible working-time models).

## Developments at the level of companies

### Restructuring the workforce

Over the last two decades, economic restructuring has been linked to youth-centred manpower policies. Economic restructuring in eastern Germany is also strongly linked to such strategies. The motivation for a personnel manager to dismiss older staff is based on:

Figure 1: Activity rates, 1991/1997



Source: Statistisches Bundesamt.

- fear of a lack of innovative capacity on the part of older workers;
- avoidance of declining performance connected to health risks;
- use of human capital and the most up-to-date skills without having invested in the company's staff;
- creation of career opportunities for the younger staff;
- wage differentials between young and older workers.

Moreover, given the (still) existing possibilities for various forms of early retirement, dismissing older persons on a large scale is cheaper for companies than dismissing younger employees (Bäcker & Naegelé, 1995). Over the last few years, youth-centred personnel policies have been facilitated by the large size of the cohorts entering the labour market, implying relatively lower wages for this generation. In addition, the possibilities for em-

ploying workers on the basis of fixed-term contracts were extended in 1985 in order to increase labour market flexibility, which has promoted the recruitment of a younger workforce. Thus, age discrimination can be observed at the bottom and at the top of the age structure: the younger workforce is entering the labour market under less favourable conditions than the middle-aged workforce, while older persons are often excluded.

An empirical study carried out by the ISO Institute clearly indicates that demographic change is not a matter of concern in the human resource policies of companies. Their planning period is in fact quite short (Huber, 1998). However, personnel managers are slowly becoming aware of the pitfalls associated with a youth-centred personnel policy, especially with regard to the loss of



skills learned by experience. Nevertheless, human resource managers and works councils still stress the advantages of an early exit, because it is still seen as a socially acceptable means of staff adjustment. Consequently, companies operating in Germany are at present not well prepared for coping with the future challenge of an ageing workforce.

It is quite likely that the attitudes of both employees and employers will gradually change with the future restrictions on early retirement. Without the early retirement schemes, the dismissal of older staff will become more expensive, and integrating older workers into the work process will become increasingly important. In this respect, implementing gradual retirement schemes is widely seen as a promising model for tackling the future challenges of demographic change, because this might help to reduce older staff while at the same time allowing for continuity and for the possibility to benefit from the higher productivity of older persons in some areas, even though these schemes are still only in their initial stages.

### Company strategies and collective agreements

Some companies have implemented their own gradual retirement schemes in the context of flexible working-time models. Much attention has been given to a model of time credits developed by the Volkswagen company: overtime pay, a Saturday bonus and other remuneration for extra hours can be accumulated as time credits in a "working-hours account". Basically, the accumulated time credits can later be used for gradual retirement at the age of 55. Older workers can then reduce their weekly working time to 18 hours while still earning 85% of the previous full-time salary. The time credits are capitalised and managed by funds, and they will be transferable in the future. Other companies offer more traditional gradual retirement schemes. For example,

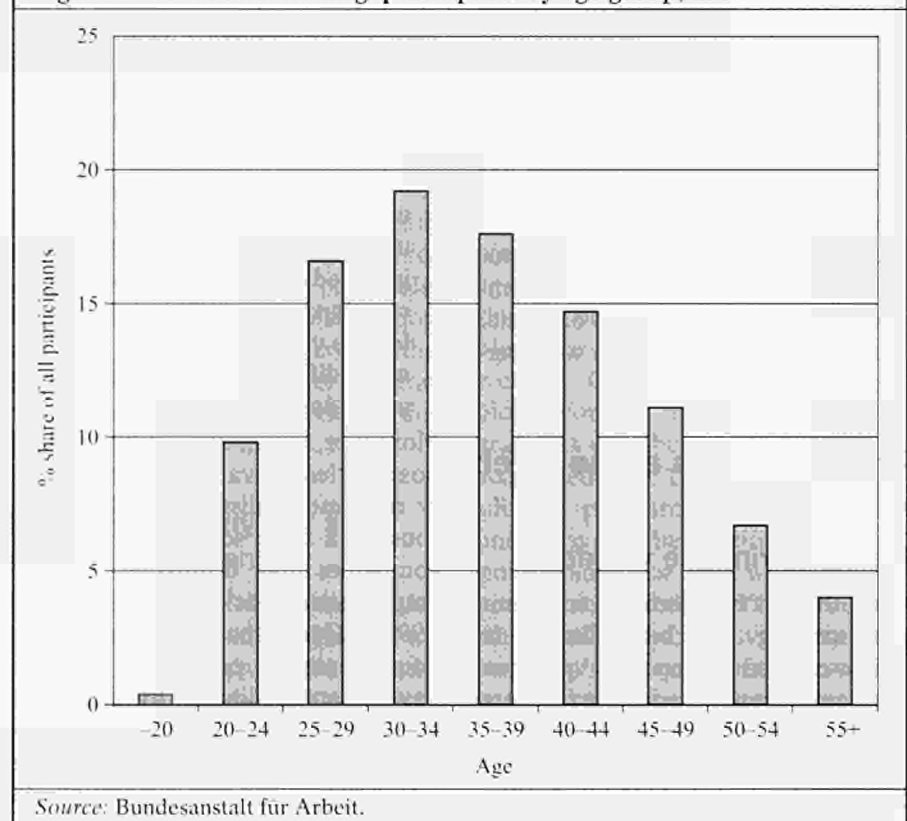
Daimler Benz offers gradual retirement at the age of 60 for the last three years of employment for workers who have worked in three shifts for ten years. They can reduce their working time by half, receiving full wages for six months and then a gradually reduced income which stops at 80% of the last gross wage. Siemens offers gradual retirement for employees with 20 years of tenure from the age of 56 to 63; part-time work is possible for at most four years at 75% of the last gross wage (Schmähl, George & Oswald, 1996, p. 86). The German insurance company Allianz offers part-time work for older workers as of the age of 60 for five years (Allianz Presseinformation, 16.9.1998). The employee works full time for the first half of this period and not at all thereafter. Throughout the whole period, the company adds a 30% supplement to the part-time wage and pays 90% of the full-time contributions to the public pension scheme. Splitting the part-time scheme for older workers into a full-time work period and a

pre-retirement period is not only common in the insurance sector: similar collective agreements have been signed within industrial sectors (e.g. chemicals). These schemes seem to be more successful than part-time models that require part-time work to be carried out throughout the whole period (Niebler, 1998; Wolf, 1998).

### Training and manpower development

Continuing training has gained in importance within firms, but older workers aged 50 or over are under-represented (Barkholdt et al., 1995). The return on investments in human capital is perceived by employers and older employees as being too low. Statistical figures regarding participation in continuing training measures financed by the Federal Employment Office clearly indicate that training is targeted mainly at the younger workforce and – to a lesser extent – at the middle-aged age groups (Figure 2). Only 11% of all

Figure 2: Vocational training: participants by age group, 1996



participants in further training and retraining measures organised by the Federal Employment Office were aged 50 or over in 1996, although this age group represented nearly a quarter of the labour force. By contrast, nearly 80% of the participants were aged between 25 and 49, although this age group represented only two-thirds of the labour force. Personnel managers stress that the low participation rate of employees aged 50 or over in further training is mainly due to low motivation on their part. However, companies do not normally offer special incentives for employees to take part in continuing training (Barkholdt et al., 1995).

## Perspectives of older workers

### Employment risks

The risk for older workers of becoming unemployed is significantly smaller than for younger workers. This has to do with long job tenure, strict dismissal protection and the possibility of early retirement. However, the prospects for older workers to re-enter the labour market after a phase of unemployment are much smaller. This is indicated by the 1998 figures for the average period of unemployment, which were 13.8 months for unemployed aged 45 or over against nine months for all unemployed persons (Bundesanstalt für Arbeit, 1999). Long-term unemployment is widespread among older workers. In September 1998, 55% of the older unemployed were without a job for more than one year. Only 28% of all exits of older workers from unemployment led back to employment, whereas 39% of all of the unemployed were able to find a new job.

### Earnings situation

Stipulations on seniority pay are included in many collective agreements. Seniority wage elements related to the age of the employee have been agreed for the young workforce aged between 20 and 27 (WSI, 1998). Age-related seniority

wages for workers aged up to 47 are effective only in the public sector. However, most collective agreements covering white-collar workers include seniority wage elements linked to experience (tenure in the company, position, etc.), while seniority wages are less important for blue-collar workers. Taken together with performance-related pay elements, the wages of white-collar workers increase rapidly at the beginning of their professional careers. After the age of 35 or 40, the rate of increase flattens out. In many industries, a peak is reached between the age of 45 and 55, with stagnating or even decreasing wages thereafter (see Figure 3).

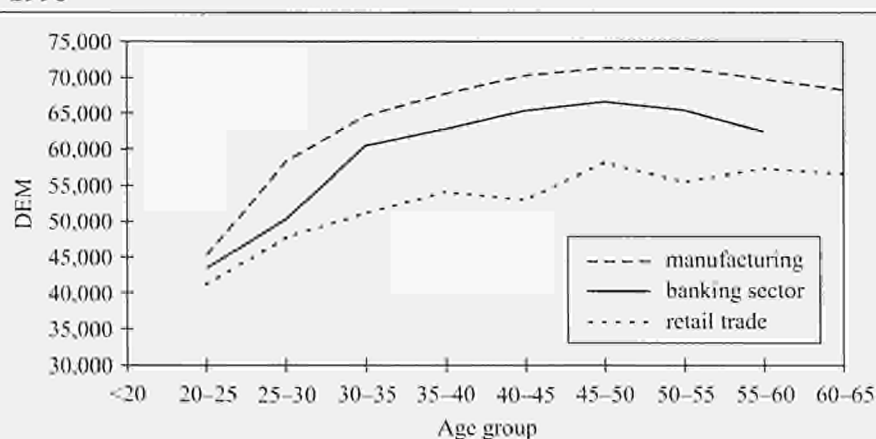
It can be assumed that especially the wages of the young workforce entering the labour market do not correspond to their productivity, and this might represent a strong incentive to recruit young persons. The productivity-wage ratio of workers aged 50 or over is less evident and depends on the kind of activities carried out. However, employers often believe that their older workers are less productive (due to health risks, etc.; Koller, 1995), while the average wage level of older workers does not decline significantly. It is not certain whether seniority wage systems will still be effective by the time the

baby-boom generation grows older. As long as high unemployment figures persist there will be pressure on wages, and seniority wages are likely to be cut back. In general terms, performance-related pay policies are being increasingly pursued, and the public sector will probably undergo a structural and organisational change within the coming years.

### The early retirement vs. unemployment choice

The decision to raise the retirement age and to reduce the financial attractiveness of early retirement over the next decade is unlikely to be revised by public pension policy. However, it is still unclear as to how this will affect the labour market. While the impact on the labour supply is quite straightforward because the participation rates of older workers will increase, the impact on labour demand is somewhat unclear. Until now, it was easy to reduce the size of the older workforce because early retirement was attractive for older workers and cheap for companies. The adjustment of pensions to longer retirement periods and the restrictions on access to disability pensions will change the situation for older workers and increase their risk of becoming unemployed.

**Figure 3: Gross yearly earnings of male full-time white-collar workers\*, 1990**



\* Performance/wage group III (skilled workers with a formal education degree. There exist five basic performance groups.)

Source: Statistisches Bundesamt: *Löhne und Gehälter*, Fachserie 16, No. 3.

Following a recent study published by the IAB, it remains doubtful whether employers will change their policies regarding older workers. As in the past, a surplus of newly skilled and cheaper labour will be available, the requirements to restructure production and introduce new technologies will persist and de-industrialisation will continue. In other words, the economic and labour market conditions which determined manpower policies in the past can be expected to continue in the future. The question that remains is who will bear the burden resulting from this trend. It is most likely that some of the burden will be financed by the companies that depend on the economic advantage of restructuring the workforce. Without doubt, however, a substantial part will be borne by the older workers, who will have to accept pensions cuts of up to 18% (Wübcke, 1999).

## Conclusions

Government policies have already reacted to the effect of ageing on labour costs. Two major pension reforms were initiated during the 1990s with the aim of gradually cutting statutory pension benefits and lengthening working life. The debate on financing public pensions in the face of demographic change is still continuing and now focuses on a fundamental reform of the pension system, mixing elements of a pay-as-you-go scheme and capital-funded programmes. In order to cope with the effects of the pension reform (longer working life and lower statutory pensions, both of which are incentives for the employees to retire later), companies are already reacting by introducing new elements to company pension schemes and implementing flexible working-time models, which are designed to allow employees to retire earlier. In contrast to former years, these concepts must also be partly financed by the employees themselves through additional contributions to the company pension schemes or through time-

credit models. However, companies are at present not well prepared for integrating an ageing workforce: their strategies for the near future are still focused on early exit. There is more awareness of the problem of ageing at the political than at the company level.

A major perceived difficulty related to ageing is lack of innovative capacity. In particular, the aversion of older workers to risks might cause problems. Moreover, a lack of human capital is feared in the long term as long as the education and training system emphasises initial rather than continuing training. Reforms of the education system are under discussion. In order to effectively implement concepts of lifelong learning, changes in human resource policies, as well as in the attitudes of employees, will be necessary. However, the prospects for labour productivity growth might not be significantly affected, for the future generation of older workers will be increasingly used to participating in continuing training. A first step has been taken by some large companies in the context of more flexible working-time models which, in principle, enable the individual training period to be spread over the whole working life.

Ageing seems to be more a problem of distribution than an obstacle to macroeconomic performance. The distribution of jobs between younger and older workers, the relationship between wages and pensions, and access to training are all elements of a generational conflict which is now widely perceived as the fundamental conflict of the coming decades. Macroeconomic performance – on the other hand – seems to be fundamental to the solution of these conflicts, as their importance depends significantly on the level of unemployment and the growth of average incomes. The solutions, therefore, should be primarily sought in the creation of additional employment rather than in age-specific labour market and social policies.

Kurt Vogler-Ludwig

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## Greece

### Introduction

Due to a decline in fertility rates and increasing longevity, the Greek population has been ageing rapidly. The problem is expected to intensify with time, given that fertility started declining in 1980 – up until then, fertility rates had been low but relatively stable.

The problem of ageing becomes apparent when we look at the age structure of the population. The share of the working-age population under 44 years decreased from 51.8% in 1985 to 48.5% in 1997. On the other hand, the older dependency ratio (population aged 65 years and over as a percentage of the working-age population) increased from 19.9% in 1985 to 27.9% in 1997. This ratio is expected to increase more in Greece compared to other countries because of higher longevity rates (OECD, 1997).

The effects of the ageing of the population on the labour force depend on developments in the participation rates of various groups. In Greece, the rates of younger groups have fallen in recent years, and this – combined with the decrease in their size – has resulted in a decline of the percentage of the labour force under 25. On the other hand, because the fall in fertility rates started in 1980 and because a relatively large number of older workers had an opportunity to retire early on the basis of various clauses in the pension legislation, the percentage of persons in the labour force aged 45–64 declined between 1985 and 1997 (Table 1). Thus, although there has been a decrease in the size of the age group under 25, the problem of ageing of the labour force has not become apparent yet due to the decline in the participation rates of older people. However, the ageing of the population will be reflected in the la-

bour force with time, particularly because the financial problems of the pension system have created strong pressures to restrict the possibilities for early retirement.

### Implications of the ageing of the labour force

#### Productivity, employment and economic growth

Productivity is likely to be affected adversely by the ageing of the labour force because older workers usually have a lower capacity to adjust to changes in technology. The adverse effects on productivity will be greater if workers do not undergo continuous training to keep up with technological changes. Since the return on investment in training decreases with the age of those receiving it, employers' incentives to train older workers will not be strong. Moreover, employers are not likely to bear the cost of training workers employed on occasional or fixed-term arrangements.

Older persons work on average fewer days than younger persons, but because of seniority bonuses, their earnings are higher. This is likely to create a less favourable relation between their productivity and earnings, compared to younger workers, and in some cases may lead to their replacement. Up to now, existing arrangements concerning dismissals (quantitative restrictions and com-

pensation requirements) limit possibilities for dismissing older workers. However, rising pressure to increase flexibility in the labour market is likely to lead to gradual liberalisation of dismissals and more extensive displacement of older workers.

From a macroeconomic point of view, because of the lower productivity of older workers, the ageing of the labour force is likely to have adverse effects on economic growth.

#### Ageing and the pension system

According to national and international analyses, the ageing of the population and the maturation of the already problematic pension system are expected to create unmanageable financial problems in the coming years (OECD, 1997; OECD, 1998a; Committee for Long-term Economic Policy in Greece, 1997; Leandros, 1997; Robolis & Kollias, 1998). In 1997, total pension outlay exceeded contributions by about 4.5% of GDP. The gap, presently covered by earmarked taxes and budgetary transfers, is expected to increase to 5.5% of GDP in 2010 (OECD, 1997). According to OECD projections, the ratio of expected pension payments to GDP will increase by 1.2 percentage points for every five years. The present value of the net pension outlay was 196% of the 1994 GDP, by far the highest per-

**Table 1: Participation of older workers in the labour force (in %)**

Year	Participation rates of persons aged 45–64			Percentage of the labour force aged 45–64		
	Total	Men	Women	Total	Men	Women
1985	57.1	80.6	35.1	35.7	37.7	31.9
1990	53.1	74.6	32.5	34.3	37.5	28.9
1995	53.9	76.0	33.3	33.0	36.4	27.6
1997	55.0	76.9	34.8	33.7	37.3	28.2

Sources: National Statistical Service of Greece: Labour Force Surveys, 1985, 1990, 1995, 1997.

centage among all OECD countries (OECD, 1997).

The ageing of the population in combination with the other problems of the Greek pension system create a need for a substantial increase in revenue or a cut in expenditure. Contribution rates cannot increase further, since statutory payroll taxes for private-sector employees are among the highest in the OECD, generating adverse effects on employment creation. In addition, due to serious fiscal problems, there are no possibilities for increasing public transfers to the pension funds. Therefore, together with improving efficiency in the administration of the system and restricting contribution evasion and avoidance, expenditure must be drastically cut. This could be achieved mainly by extending the length of working life and reducing the number of pensioners. However, the ageing of the labour force will tend to create more instead of fewer pensioners.

## Changes in the policy framework: recent trends

### Policies concerning retirement age

During the 1980s, liberal legislation concerning retirement and invalidity and its lax application gave a relatively large number of workers the opportunity to retire before the statutory age of 65. Under the pressure of the mounting financial problems of the system, legislation was passed in the early 1990s to restrict early retirement. In addition, the method of calculating pensions was changed in order to encourage workers to stay longer in the labour force (Law 2084/1992).

The reform of the legislation and its stricter application since 1992 have had a restricting effect on the number of workers retiring early. However, many possibilities for retiring before 65 still remain. Besides other provisions, about 40% of the labour force is eligible to retire before 65 on account of employment in

arduous and unhealthy work. The government is considering legislation for a radical reform of the pension system, but because of the serious political and other implications of the needed changes, their introduction has been postponed to after the year 2000.

### Pathways to early retirement

There are many pathways to early retirement. Under Law 2556/1997, workers with 10,500 days of insured work can get a full pension after the age of 58 and with fewer days of work can get a reduced pension after the age of 60. Workers employed in arduous and unhealthy work can get a full pension after 60 and a reduced pension after 56. Certain categories of other workers and of women with children can retire after the age of 50.

Under various ministerial resolutions, workers close to retirement age who lose their jobs because of

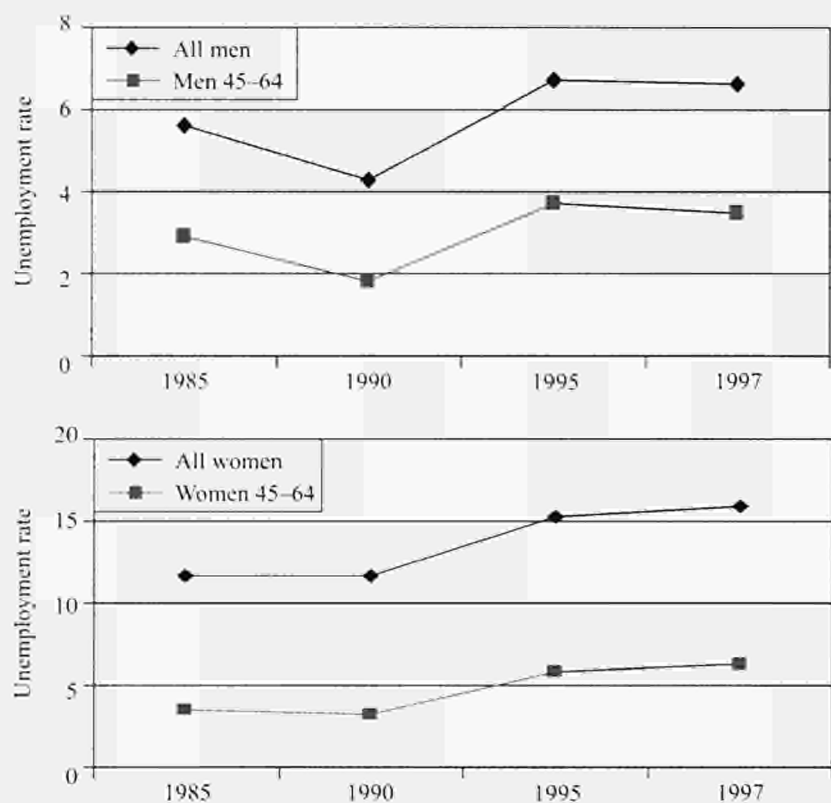
mass dismissals become eligible for increased unemployment benefits for two to three years. During that time, their social security contributions are paid by the Manpower Employment Organisation (OAED). This arrangement facilitates early retirement.

In the past, there was extensive early retirement on account of invalidity, but now this has been restricted.

### Policies to increase participation rates and the reintegration of older workers

There has been no significant effort to increase the participation rates and the reintegration of older workers. This can be explained by the fact that, because of the ample possibilities for early retirement, the problems associated with the ageing of workers have not become pressing yet. Moreover, because of the dismissal restrictions and the relatively high compensation requirements for

Figure 1: Unemployment rates, men and women, total and aged 45–64



Source: Labour Force Surveys.



salaried employees with many years of service and labour union activity, dismissal of older workers has not been as frequent as in other countries. As a result, the unemployment rates of older workers, both men and women, have been less than half the national rates (Figure 1). Thus, the issues associated with the employment or the reintegration of older workers have not been in the forefront of interest, and, consequently, there has been no public debate or pressure for policies in this regard.

Most training and employment programmes benefiting older workers are for a broader age group (30 to 64 years). Occasionally there is extra help for older workers. For example, in the employment subsidisation programme operated by the OAED, the subsidy may last 12 more months for persons aged over 55.

Under the Work Reintegration Programme, when firms employ workers who lost their jobs because of mass dismissals due to privatisation, restructuring or closing down of firms, there is an increase in the employment subsidy for men aged over 55 and women aged over 50. Under this programme, employment subsidies are combined with vocational guidance and training. A special programme exists for subsidising the employment of unemployed workers who are close to retirement age (workers who need up to 700 days or a little more than two years of insured work), under which the subsidy is higher and may last for the time needed until retirement.

Under the self-employment programme for unemployed persons aged 30–64, there are no special provisions for older persons. Under the self-employment programme for people with special needs, a small bonus is added to the subsidy for those aged over 45.

Recently, the government announced a pilot programme combining training, placement and subsidised employment for 1,500 unemployed persons aged 45–64, to be implemented in the coming months.

## Developments at the level of companies and sectors

Because of the possibilities for older workers to retire early, the problems associated with the ageing of the labour force have not yet become apparent and have not created pressure on companies to deal with them. Therefore, the issues related to replacing or keeping older workers, providing training to enable them to keep up with technological changes, introducing systems of gradual retirement, and so on, have not received much attention. There may be some forward-looking companies or labour unions that have considered some of these issues, but such cases have not been brought to public attention.

## Prospects of workers when they get older

Under present conditions, the prospects of older workers do not seem encouraging from many points of view. Changing jobs is usually very difficult for them. In view of expected structural changes in response to the need of firms to become more competitive, the gradual liberalisation of the labour market and the reduction in the power of labour unions, the dismissal of older workers is likely to become a more frequent phenomenon in the near future. This, in combination with the restriction of possibilities for early retirement, will diminish the employment prospects of older workers and increase their rate of unemployment.

The possibilities for older workers to receive training and enter a process of lifelong learning do not seem good either. The incentives of companies to make investments in this regard are not strong, while the various kinds of public programmes are likely to put more emphasis on training persons who are going to stay longer in the labour force.

Moreover, due to the serious financial problems of the social security system, pensions are likely to decrease for a large number of workers.

Some pensioners may be able to supplement their incomes by working in the formal or informal sector, through private insurance plans or through family savings, but such solutions cannot be of help to a large number of them. According to a government committee (Committee for Long-term Economic Policy in Greece, 1997), because of the poor prospects of the public pension system, reliable supplementary private pension plans must be developed at the company or sector level in order for pensioners to be able to secure supplementary sources of income.

## Conclusions

Despite the rapid ageing of the population and the growing concern about its impact on the labour force and the ailing social security system, the issue of introducing a flexible retirement system and other arrangements to deal with the problems associated with ageing has not received much public attention and has not been in the forefront of interest on the part of policy-makers or the social partners up to now.

Because of liberal retirement policies in the past, Greece is one of the OECD countries with the largest number of pensioners. In 1997, their number corresponded to 57% of those employed, one of the highest percentages in the OECD. About 22% of the population receive a primary pension. Although the statutory retirement age is 65, because of special arrangements for individual groups, the effective retirement age is between 55 and 60 years. In 1995, the average age of transition to inactivity was estimated to be 62.3 and 60.3 years for male and female workers, respectively (OECD, 1998b).

All Greek and international observers agree that the pension system in Greece, in its present form, is financially unsustainable and requires a major reform. Ways must be found to expand revenues and reduce pension outlays. Under present conditions, it will be very difficult for the

government to restrict early retirement, particularly for workers who have established such a right and are close to making use of it. Abolishing this right can create serious political problems for any government. By introducing a gradual retirement system that would incorporate sufficient incentives for those eligible for early retirement to stay longer in the labour force, the government could increase the revenue and decrease the outlay of the pension funds, thus leading them out of the present impasse.

Besides the above, a gradual retirement system could be very useful as an alternative to early retirement for reducing employment when restructuring big enterprises or sectors (e.g. banking) or privatising public enterprises, as a means for alleviating the situation in regions with high unemployment, and so on.

The existence of a sizeable informal sector in the country may create some problems for the implementation of a gradual retirement system. An undetermined number of pensioners are currently engaged in undeclared work. If opportunities for such work exist, people who have established a right to retire early may prefer to use it and engage in full- or part-time work in the informal sector instead of accepting a partial retirement arrangement.

If a gradual retirement system is introduced as an option for workers who are not eligible to retire early but who might prefer to work on a reduced schedule for some period before retirement, there will be no financial gains for the pension system. In that case, the amount of contribu-

tions would decrease during the years of reduced work, while the possibilities for reducing pension expenditure would be small because, in most cases, pensions are low. Therefore, it does not seem advisable to use this system for this group of workers.

The introduction of a gradual retirement system could have a positive effect on the finances of the pension system if it provided an option for workers who have reached the statutory retirement age to stay longer in the labour force on a reduced work schedule. However, this does not seem advisable since it would limit the employment opportunities for younger persons who already suffer from high unemployment rates.

A well-designed flexible retirement system could maintain in the labour market a large number of workers who, on the basis of existing legislation, have established a right to retire earlier than the statutory age of 65. Thus, it could provide some relief to the mounting financial problems of the social security organisations. Such a system could also be very useful for enterprises and sectors that have to reduce their personnel because of restructuring and for the alleviation of the situation in regions with high unemployment.

Under present conditions, due to the pressing financial problems of the social security system, the existing possibilities for retired persons to get a second job in the informal sector and the relatively low level of pensions, it does not seem advisable to provide the option of gradual retirement to those who are not eligible to retire earlier than the statutory re-

tirement age. And given the relatively high unemployment rate for young persons, it does not seem advisable to give workers the option of partial retirement after the age of 65.

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# Spain

## Introduction

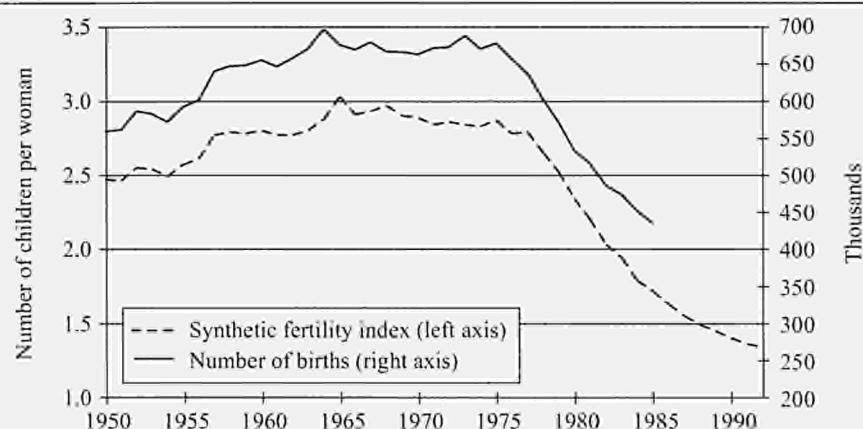
Like other European countries, over the last few decades Spain has experienced a significant change in demographic trends. There are three main elements of this long-term change: a decrease in fertility, a decline in the youth cohorts and an increase in the share of older people among the total population.

Figure 1 presents two indicators of fertility: the synthetic fertility index (SFI, calculated as the average number of children per woman) and the number of recorded births for the period 1950–1990. These data show a dramatic decline after 1976: the size of the cohorts has almost halved, and the SFI has fallen to levels unthinkable twenty years ago. While there has been a general decline in all European countries, the decline has been greater in Spain.

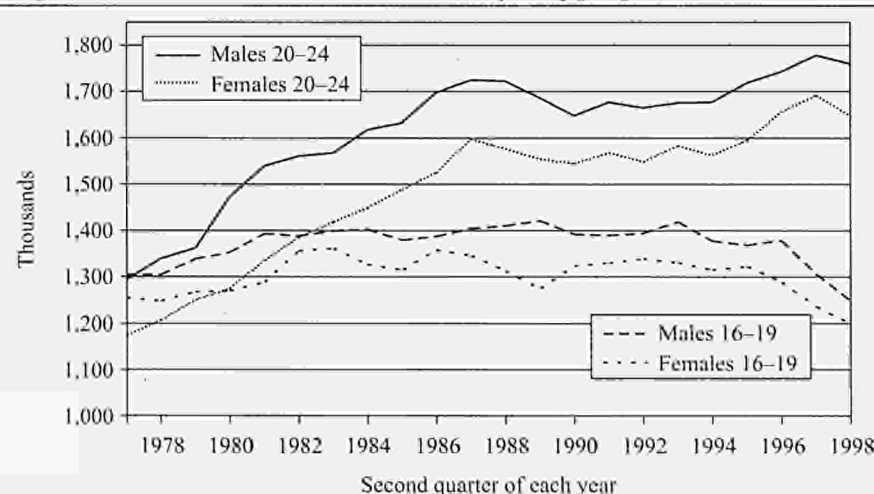
Figure 2 depicts the evolution of the number of males and females of 16–19 and 20–24 years of age. As can be seen, the increase in fertility of the 1960s translated into a rising population aged 16–19 until the early 1980s, when it started to stabilise. People aged 20–24 also followed the same pattern, although five years later. In recent years, both groups have started to decline, although very moderately.<sup>1</sup> The changing trend has not yet had a visible impact on the labour market, but it implies that in the future the working-age population will be growing at an ever slower pace, eventually starting to decline, while the ageing of the population will continue.

The Spanish Statistical Office has just released a full set of population projections for the period up to 2020 on the basis of the results of the 1991 census. Figure 3 presents the results of these projections for the working-age population (16–64 years old) in terms of the percentage distribution

**Figure 1: Number of births and synthetic fertility index, 1950–1990**



**Figure 2: The evolution of the number of young people, 1977–1997**



Source: Labour Force Surveys.

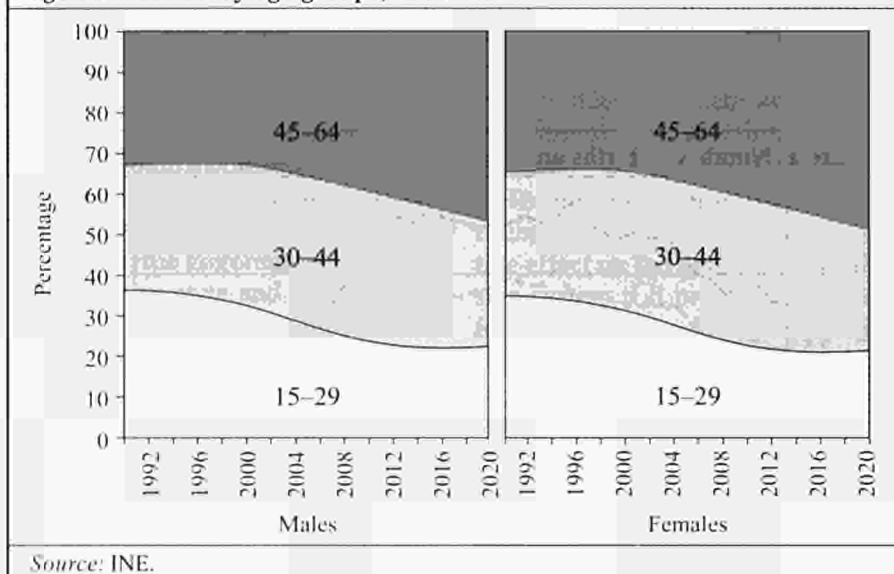
for three main age groups: under 30, 30–44 and 45 or over. The projections indicate that, while in 1990 people between 45 and 64 years of age represented 32% of males and 35% of females, they will represent around half of the working-age population by 2020. The decline in the younger cohorts and the corresponding increasing share of the older cohort show that an eventual way to prevent future labour shortages could be to promote active ageing, that is, the promotion of participation of the older cohort.

But what is the current situation of the older cohorts? Figure 4 shows that the male participation rates for those older than 55 years are very low and have declined over the last decade.<sup>2</sup> In the case of females, as

<sup>1</sup> The increase in the numbers after 1995 is related to the revision of the sampling frame used in the EPA, which has tended to (partially) correct the bias of the age structure against people between 20 and 45 years old.

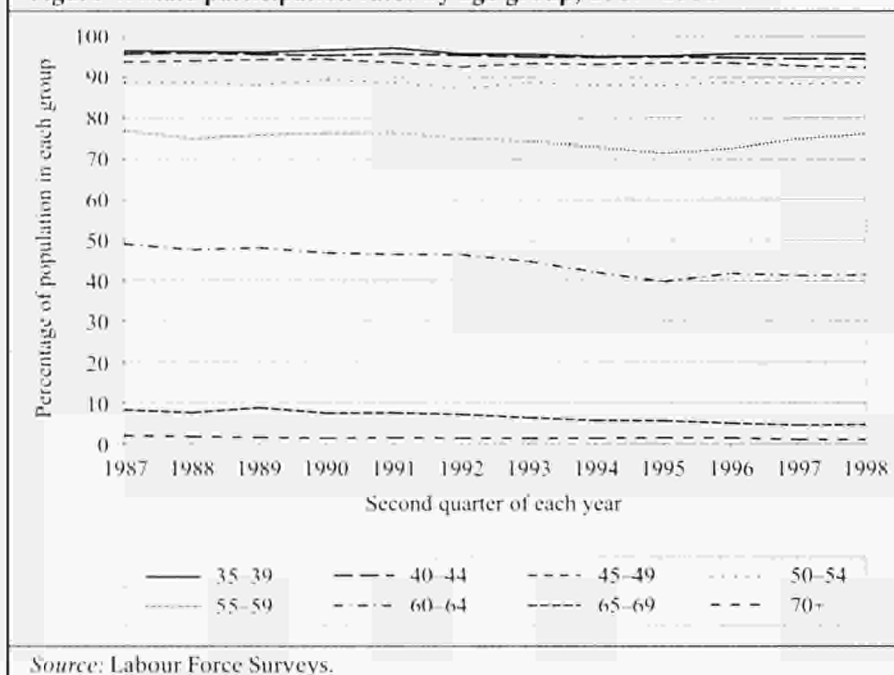
<sup>2</sup> The increase observed after 1995 should be interpreted with care, as it probably reflects the same problem mentioned in Note 1, that is, the effects of the revision of the sampling frame used in the Labour Force Survey.

**Figure 3: Projections for working-age population by gender and percentage distribution by age groups, 1990–2020**



Source: INE.

**Figure 4: Male participation rates by age group, 1987–1998**



Source: Labour Force Surveys.

can be seen in Figure 5, most age groups tend to show an increasing pattern of participation, albeit of a smaller proportion as age increases, so that the dispersion of the rates in 1998 is significantly higher than it was in 1987. The reason behind these decreases is the age bias of employment adjustments in firms over the last two decades: older workers have been the focus of employment reductions entailing early retirement

or dismissals with high severance pay (covering eventual earnings losses until the minimum legal retirement age of 65).

Therefore, the demographic trends plus changes in participation rates of higher age groups show the relevance of thinking about measures to activate older people in order to prevent a further increase of inactivity among these groups. This is not only relevant in terms of the eventual burden on

social security, but also in terms of the lack of participation in the labour market, which is the main way to avoid exclusion from social participation in our society.

### Changes in the policy framework: recent trends

Although measures affecting older workers are included in more general policies, some specific policies can be found. Overall, we can say that the successive governments since the early 1980s have been concerned about older workers situated in three main areas: first, they have tried to encourage the hiring of workers aged over 45; second, they have encouraged the early retirement of those aged over 60; finally, they have extended the right to unemployment benefits to those aged over 52 until retirement age.

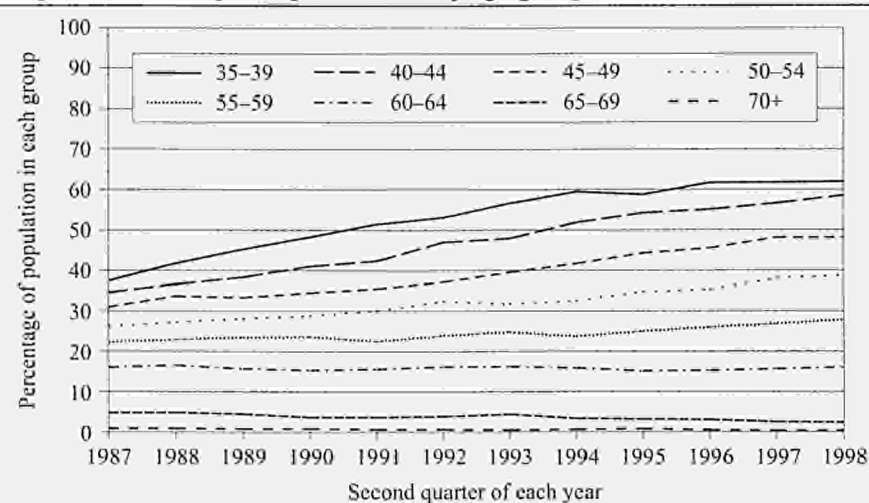
As for hiring, there is a wide variety of contracts that firms can use. At the end of the 1970s, when the economic crisis led to a substantial increase in unemployment, the successive governments began to create a framework of employment promotion policy. A legislative reform introduced in 1984 was intended to promote the use of fixed-term contracts and other types of contracts in order to foster the hiring of workers in an economic situation characterised by high unemployment rates. Table 1 shows the total number of contracts registered at the INEM (the public employment service) offices and those particularly targeting older workers. As can be seen, these contracts have been used very rarely and represent less than 1% of total contracts.

If we turn to the specific contracts targeted at older workers, there are three main types: one is aimed at promoting employment of such workers, while the other two are intended to encourage their replacement and early retirement.

The first type of contract<sup>3</sup> was created in 1984 with the objective of

<sup>3</sup> This contract is entitled "Permanent contract for workers older than 45" (*Contrato indefinido para mayores de 45 años*).

Figure 5: Female participation rates by age group, 1987–1998



Source: Labour Force Surveys.

promoting permanent contracts for older workers. The main reason was the observed increase in the number of older people unable to obtain a job and thus becoming long-term unemployed. Therefore, the policy was targeted at the group of workers aged over 45 who had been registered as unemployed for more than one year. The economic incentives given to the firms were twofold: a reduction by 50% of the employer's social security contributions for the first two years of the contract and a

grant of ESP 400,000 for every worker taken. In 1992, the two incentives were enlarged: the reduction by 50% was applied for the entire term of the contract and the grant was increased to ESP 500,000. In spite of these incentives, the number of contracts has been very scarce, only exceeding the figure of 10,000 in the central years of the economic expansion in the 1980s (1987–1989).

This contract was replaced in 1997 when the government and the na-

tional trade unions launched the Accord on Employment Stability. The new contract was called the "Contract for promoting long-term employment". Its main difference compared with the "normal" permanent contract is the reduced severance pay the employer has to pay in case of worker dismissal. This new contract is targeted at specific groups of people: unemployed aged between 18 and 29 years, long-term unemployed who were registered for at least one year at the INEM offices, workers aged over 45, disabled workers and workers with temporary or fixed-term contracts working in the same firm in May 1997 (the date of the agreement). The economic incentives given to firms were a reduction by 60% of the employer's social security contributions for the first two years of the contract, a reduction by 50% for the rest of the contract and some fiscal incentives. Figures for 1997 and 1998 contained in Table 1 suggest that this new contract has been used more for the long-term hiring of older workers than the previous one.

With regard to the other two types of contract, they are aimed at encouraging the replacement and early retirement of older workers. The first

Table 1: Number of contracts for older workers registered at INEM, 1985–1998

Year	Replacement contracts	Retirement at 64	Replacement -> permanent	Permanent contracts for workers > 45	Total contracts	Total no. contracts	Older workers/ total %
1985	1,944	978		6,398	9,320	2,792,003	0.3
1986	1,171	1,098		9,503	11,772	3,443,505	0.3
1987	904	818		10,535	12,257	4,038,879	0.3
1988	1,473	894		11,296	13,663	4,714,332	0.3
1989	1,565	909		10,760	13,234	5,356,732	0.2
1990	2,283	997		8,870	12,150	5,532,673	0.2
1991	2,611	1,070		7,394	11,075	5,522,518	0.2
1992	2,182	1,305	201	6,427	10,115	5,156,795	0.2
1993	1,582	1,320	60	4,726	7,688	4,654,787	0.2
1994	219	1,534	19	8,016	9,788	6,040,602	0.2
1995	238	2,020		7,630	9,888	7,330,094	0.1
1996	213	2,779		6,872	9,864	8,627,547	0.1
1997		2,783		38,555	41,338	10,093,600	0.4
1998		2,921		76,744	79,665	11,663,300	0.8

Source: INEM.



type of contract<sup>4</sup> consists in reducing retirement age from 65 to 64, leaving the pension of the worker unchanged. The condition for the firm is to take on as a replacement either an unemployed person receiving benefits or a young unemployed person without work experience. If the new contract is long term, the firm enjoys a 50% reduction of the social security contribution. The use of this measure has been very limited: an average of 1,000 contracts were concluded annually during the period 1985–91, although this increased to around 3,000 in 1997–98.

The replacement contract (*Contrato de relevo*) aims at retiring older workers; it consists in facilitating retirement at a maximum of three years before legal retirement under a partial retirement scheme. Working hours are halved and wages reduced proportionately, but the worker has to draw 50% of the pension. The condition for the firm is to take on a part-time replacement. If this new contract is converted into a permanent contract when the older worker reaches the retirement age, the firm enjoys a 50% reduction of the employer social security contribution (60% if the new recruits are females in occupations where they are under-represented). However, in spite of the existing incentives, the replacement contracts have been used very rarely. This type of contract was abolished in 1997.

There is another scheme to promote early retirement of older workers. This measure permits some of those who have lost their jobs between the ages of 60 and 65 to receive a benefit up to retirement age equivalent to the pension they would have received at age 65, while their pension at this age remains unchanged. In 1986, this measure was merged with the industrial restructuring scheme; thus, companies in sectors in crisis received funds from the government when they dismissed (mainly older) workers. The number of workers involved has been more or less constant over the 1980s and 1990s (around 5,000). Workers in-

involved in this scheme are mainly aged 60 (around 75% of all beneficiaries during the 1980s, increasing to 91% in 1997). The sectors in which the funds are devoted to resettlement belong mostly to manufacturing (sub-sectors of "Production and primary processing of metals", "Shipbuilding" and "Production of machinery and electrical equipment").

As for unemployment benefits, since 1984 workers older than 55 who meet all the requirements for entitlement to a retirement pension except age were granted the right to receive unemployment assistance benefits at a flat rate equivalent to 75% of the statutory minimum wage) until they reached retirement age. The required age was later reduced to 52. This implied that a worker aged 47 with a continuous employment record of 15 years could lose his or her job, receive unemployment insurance benefits for two years, then receive unemployment assistance for another three years (under the special provisions made for those over 45) and then enter "open-ended" unemployment assistance until they reached the age of 65.

Finally, the data suggest that older workers are increasingly retiring before the age of 65. This is supported by figures referring to the number of new retired people receiving retirement pensions (information refers only to the general regime of the social security). The proportion of people aged between 60 and 64 has increased substantially since the mid-1980s: while that proportion was 52% in 1985, it increased to around 66% during the 1990s; in addition, the proportion of those aged 60 years increased from 17% in 1985 to around 33% during the 1990s. Therefore, nowadays two out of three new retired people are aged under 65 and one out of three is aged 60.

## Developments at the level of companies and sectors

In order to study employers' measures for older workers, we can make use of the results of the "Human resources management survey in Spain" (*Encuesta para el diagnóstico del desarrollo de los recursos humanos en España*), which was carried out in the second part of 1986 among 167 firms with more than 250 workers.

The survey is representative by productive sector, firm size and total revenue, and the sample is considered representative of the situation in human resources management in medium and large companies in Spain. Here, we focus our attention on the information referring to private Spanish companies, representing over 40% of the sample. In the questionnaire, there are different questions directly and indirectly related to measures and attitudes towards older workers. We note that the share of workers aged over 50 with respect to the total staff of private companies is 23%. This figure varies among sectors: "Electricity", "Plastic and rubber" and "Metals" are above average; "Construction" and "Services" are below average.

With regard to recruitment, age is a critical factor affecting firms' decisions. Of the sampled private companies, 23% hire non-qualified workers aged over 45, and only 12% hire qualified workers aged over 50; these proportions are even lower in the case of companies with more than 1,000 workers. In addition, the selection policy is oriented towards young workers: 61% of the firms would recruit young workers if more flexible schemes were available. These preferences of companies with respect to hiring are reflected by the types of contracts. Fixed-term and training contracts were used by more than half of the private firms sampled. However, contracts promoting

<sup>4</sup> This contract is entitled "Contract in substitution of early retirement" (*Contrato en sustitución por anticipación de la edad de jubilación*).



the hiring of workers aged over 45 were used by less than 10%; in addition, contracts encouraging the replacement and early retirement of older workers were used by even less than 5%.

Regarding the pay system, 58% of sampled private firms have some kind of complementary pension to the public retirement pension, which amounts to 100% of previous wages only in the case of 8% of companies with more than 1,000 workers.

Finally, it is worth pointing out that retirement is used as a mechanism to reduce jobs by private firms. Some information reinforces this:

- First, only 38% of vacancies resulting from retired workers are filled with new recruits. Therefore, retirement is clearly a method to downsize.
- Second, a low percentage of the sampled firms (31%) has a standardised system to guide workers towards retraining and considers that workers have the necessary tools to obtain that retraining. But there are two main restrictive factors hindering the retraining of an individual: age and basic skills. When a new technology is introduced, the adjustment for some groups of workers (especially those over a given age and without certain skills) is very difficult. Therefore, firms do not devote much effort to the retraining of such workers and prefer to use other policies, such as replacement, early voluntary retirement and collective dismissals.

## Perspectives of older workers

Proximity to retirement is the most influential aspect of the working biography of older workers. This fact affects motivation to work, and it is increasingly perceptible that workers aged over 50 are afraid of unemployment since this state can become a direct way to early retirement.

Older employees are seeing the entry into the firm of a young generation of workers who are more edu-

cated and more capable of adjusting to the introduction and wide utilisation of new technologies that are changing the work environment. Changes can be perceived as the beginning of a staff reduction that affects them most. This feeling is supported by the fact that the employment promotion policy encouraging the hiring of older workers is hardly used by firms. The motivation of older workers is low because they have the perception that firms do not value their experience and prefer young workers. On the other hand, it is also true that certain older workers are reluctant to communicate their experience to the new entrants because they consider their tasks to be personal and not transferable.

Unemployed older workers perceive the time horizon until retirement as a period of decreasing income. This group of unemployed has a subjective low probability of finding a job for two reasons: first, they know that companies' hiring behaviour favours the young; second, an unemployed person aged over 52 has the legal possibility to obtain public benefits until retirement (at contributory and assistance levels).

Transitions out of the labour force caused by early retirement put older workers into "statutory old age". They do not perceive themselves as such, given that their living and health conditions are better than those of older persons of past generations. Transition to retirement implies losing the social role defining a person. Therefore, it is a real problem to look for a new role and new activities which lead to a new personality, and even more so if the individual is still capable of performing activities. However, adjustment to the status of retirement differs across job categories.

Transitions are easier in the two most extreme cases: first, when workers have been very dedicated to their jobs; second, when the job was considered to be merely an income source not offering any satisfaction. The former group would consist of intellectuals, artists and liberal pro-

fessionals who have performed jobs leading to satisfaction and social prestige. In the latter group, workers accept retirement (that is, leaving employment status) well when the pension is sufficient, but not so well when they do not know how to make use of leisure time. An intermediate group consists of qualified manual workers, clerical workers, and so on, who have more problems carrying out their professions after retirement and adjusting to the new status; curiously, individuals belonging to this group are those who ask for more information on the transition into retirement than the other groups.

Training for retirement has been introduced as a necessary scheme by the government and firms. In Spain, non-profit organisations (Caritas), public institutions (the social services office – INSERSO – and town councils) and some public firms (ENDESA and FENOSA) have initiated the implementation of training programmes devoted to the retirement of older workers. The above-mentioned public firms were pioneers for this experience, which was continued by other public and private firms such as Canal de Isabel II (a public firm for water distribution) and certain financial institutions. Nowadays, two types of programme are applied, depending on how far the retirement date is away: some of them start as early as five years before the date of leaving the labour force, while others are limited to an intensive course one year prior to retirement.

This kind of scheme can meet resistance from the older workers involved, as they object to being designated as old people by the firm. In the same way, but at a different level, they perceive specific retraining courses for them as a way to classify them as old people. For this reason, some firms prefer to offer specific courses not for this target group but for all workers in order to avoid this negative reaction.

It is possible to keep track of all these issues in a survey ("Survey of Structure, Consciousness and Class Biography", carried out by the Insti-

tute for Women, the Autonomous Community of Madrid and the Spanish Statistical Office – INE – in 1991), which contains information on some interesting issues related to older workers. The objective of this survey is to study the Spanish social structure using an internationally comparable questionnaire. Certain questions refer to matching between jobs and workers. We will use information gleaned from the responses of older workers to these questions in order to obtain the subjective point of view of this group on their working conditions.

First, regarding the relationship between the education level attained by the individuals and the education level required for jobs, there is a question that asks workers to indicate whether their education level is more than, equal to or less than the level required for their jobs. Only 14.5% of older workers feel that their formal education is not sufficient to properly carry out their tasks, while 62% think that their education is sufficient. Figures for all workers are 30% and 60%, respectively.

Second, individuals are asked about the convenience of acquiring specific training for their jobs. Fifty-

eight percent of older workers and 54% of all workers believe that training is not necessary. However, it is possible that, while not considering it necessary, workers would have received specific training for the job. At the same time, 22% of older workers and 31% of all workers pointed out that they had not received such training.

Finally, there is a question for scoring their satisfaction in the workplace. The answers range from 1 (“I like it very much”) to 5 (“I hate it”). The differences are not very large: nearly 60% of older workers are satisfied and 25% are indifferent, while these shares are 65% and 22%, respectively, for all workers.

### Conclusion: policy options

It seems that there is currently no developed concept of “active ageing” in Spain. Although some large private and public companies and non-profit organisations have started to implement training programmes related to the retirement of older workers, these schemes are not widespread throughout the economy. In fact, participation of older workers in training appears to be minimal, which can be due

to either workers’ motivation or to firms’ attitudes: information from surveys indicate that older workers think their matches are reasonably good, while employers do not offer retraining courses because they feel these workers are unable to adjust to a new work environment.

From another point of view, there is currently a debate on the convenience of the use (or abuse) by companies of early retirement schemes, since social security expenses due to early retirement pensions have grown recently and some (large) firms have announced and started staff adjustments (in some cases, these adjustments can imply early retirement for 20–25% of their workers). At the centre of this debate are incentives from public policies put forward during the 1980s which tend more to foster the early retirement of workers than to allow them to work longer than the legal provisions permit. All in all, it seems that a clearer definition of the concept of “active ageing” is needed in addition to an intensification of policies directed at accommodating the transition of early retired workers to their new state of “active inactivity”.

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Miguel A. Malo & Luis Toharia*



## France

### Introduction

In France the labour market is characterised by a division of labour between the generations in which the activity of adults aged between 25 and 54 appears to be relatively well protected within a system of “de-

layed” entries and “early” exits. This contrasts with other countries that have opted instead for a clear policy of reducing working hours for all age groups.

Clearly, it has been the rise in unemployment that has induced policymakers to reduce employment

among workers aged over 55, whereas activity rates among prime-age males have remained constant, and those of prime-age women have increased.

The employment rates of workers aged 50 and older has fallen continuously during the last 30 years, as is

shown by the longitudinal data resulting from the employment surveys conducted each year by the national statistical office (INSEE).

Although there is a clear difference between the sexes in participation rates in the upper age categories, the difference has now virtually disappeared among those over 60.

France has witnessed a massive decline in participation by older persons in economic activity during the past 30 years, one that is without precedent.

The following factors explain this decline:

- changes in labour force structures, involving the decline of certain categories of self-employed workers (e.g. farmers and artisans) who traditionally retired relatively late;
- the softening of liquidation conditions, which has permitted more people to retire with a full pension at an earlier age than previously;
- the aspirations of workers and their representatives for earlier withdrawal from paid employment, which have taken their most concrete form in the demand for a pension at 60; and
- above all else, the massive exclusion of older workers from the labour market by a combination of exit from, and their non-recruitment by companies.

France has one of the lowest participation rates for 55 year-olds in the European Union, and the decline has been more pronounced than in other countries.

**Table 1: Participation rate of workers aged 50 and above (in %)**

1980	1985	1990	1995
30.2	26.7	24.5	22.4

Source: Employment survey by INSEE.

Three explanatory factors may be put forward:

- the existence of measures that are attractive for both employers and workers;
- the rigidities of the social dialogue and labour law, which fail to generate alternatives to the prevailing situation and make it difficult to adopt innovative social measures;
- a consensus on both sides, among employers and workers, which prevents any fundamental rethinking on this issue.

The process of ageing on the labour market – and in French society in general – poses a number of questions for the future:

- The first concerns the increasing cost of benefits to older workers paid out by the unemployment insurance fund (in the short run) and its impact on public finances.

The proportion of older workers who are in receipt of benefits from the unemployment insurance fund is constantly rising, reflecting the persistent decline in the employment rates of the population aged 55 and older.

Such public policies incur heavy costs for society at large. The allocation for replacement workers for those taking early retirement (*Allocation de Remplacement pour l'Emploi – ARPE*) alone has cost the unemploy-

ment insurance fund as a whole (UNEDIC) more than FRF 13 billion since its introduction in 1995. Government support to finance early retirement, both total and progressive, cost more than FRF 15 billion in 1997. In 1994 one quarter of UNEDIC expenditure was earmarked to finance benefits paid out to unemployed workers aged over 55.

Even though public policies such as these (early retirement, benefit payments) have undoubtedly had an effect in reducing unemployment, this effect remains far below expectations, and, according to some experts, “the number of jobs created has often been lower than the number of early retirements”.

- The second question relates to the financing of pensions: studies by the State Planning Commission (*Commissariat Général au Plan*), or the so-called Charpin Report<sup>1</sup>, show that the vitally important relationship between the number of pensioners and the number of contribution-payers will shift radically: it is expected to double between now and 2040, rising from 4 pensioners to 7 pensioners per 10 people of working age between

<sup>1</sup> *L'Avenir de nos retraites* [The future of our pensions]. Report by Jean-Marie Charpin to the Prime Minister. Commissariat Général au Plan, April 1999.

**Table 2: Participation rates according to survey data, by gender and age group (in %)**

	1975		1980		1985		1990		1995	
	M	W	M	W	M	W	M	W	M	W
45–49 years	96.5	53.6	96.7	57.7	96.5	67.5	96.9	69.1	96.2	77.3
50–54 years	93.7	51.1	92.5	54.3	92.5	57.3	91.9	63.2	92.4	70.5
55–59 years	82.9	43.2	80.9	46.7	69.9	43.5	71.8	48.0	70.9	52.5
60–64 years	54.5	29.3	47.0	27.0	30.3	18.9	23.2	19.0	18.2	16.9
65–69 years	19.3	10.6	11.9	10.4	8.4	4.7	5.1	3.5	3.3	2.9
70–74 years	8.2	3.7	4.8	3.5	3.1	1.7	1.8	0.8	1.4	0.6
> 74 years	3.6	1.8	2.2	1.6	1.5	0.8	1.3	0.3	0.5	0.3

Source: Employment survey by INSEE.

1998 and 2040. The over-60s population is currently expanding at a rate of 1.1% per annum. From 2006 it is expected to grow twice as fast, expanding at an annual rate of 2.5% to the year 2035.

- The third question relates to the ability of companies to change their behaviour: employers continue to favour early retirement as their workforces grow older. The restructuring of France's productive base (leading to redundancies) and weak employment growth during the past decade have led to a massive exit of older workers, because they were better protected than other age categories, through the unemployment insurance and early retirement systems, so that their exits were considered more acceptable.

## Changes in the policy framework: recent trends

The development of early retirement, introduced in France twenty years ago, is unmistakably to be interpreted as a steering measure by the public authorities to reduce participation rates among older workers.

Since the end of the 1970s, the retirement age has become an instrument of employment policy. During this period the number of people affected by the legal provisions on early retirement has continuously increased, rising from 101,000 in 1997 to 287,00 in 1981; the number of beneficiaries/(stock value) reached a maximum of 700,000 in 1984.

Since the start of the 1990s, public policies in this area have been marked by contradictory trends:

- on the one hand, older workers continue to be induced to leave the labour market by means of generous redundancy payments and other benefits, or such redundancies are justified with reference to parallel activation measures (compensatory recruitments) – the ARPE is an example of this;
- on the other, the scope for firms to gain access to early retirement (ei-

ther total or progressive) is being limited.

Yet even in 1997, the provisions on early retirement continue to play an important role. The more than 500,000 people taking advantage of the measures were distributed as follows:

- Firstly, the state-financed measures of ASFNE (total early retirement) and progressive early retirement, and ARPE, run by UNEDIC (229,000 participants). Within this group, AFSNE, which was long preponderant, is declining in importance in favour of measures for replacement recruitments (ARPE and progressive early retirement).
- Secondly, the older unemployed also benefit from a special benefit (*Allocation Chômeurs Agés* – ACA) and the “specific solidarity support” (*Allocation de Solidarité Spécifique* – ASS), offering them privileged benefit conditions.

## Recent measures in support of the early exit of older workers

The introduction of the ARPE measure at the end of 1995, in the wake of an agreement reached between the employers' federations and the executive directors of the unemployment insurance system for employees (UNEDIC), which is now considered to be “historic”, opened up a new avenue for workers who have reached the end of their occupational career.

It enables those workers who are able to show that they have paid contributions to the pension insurance system for a total of 168 quarters to enter retirement as early as at the age of 56, subject to the agreement of the employer and in return for one or more replacement recruitments. In this sense, it constitutes a way to activate employment policy in support of employment-policy target groups, particularly young workers.

This agreement, which has been renewed every year since 1995, assists young people in entering the labour market, but it makes no provision for older workers to leave the la-

bour market progressively by way of part-time work.

Even so, the ARPE is currently the early retirement measure most frequently deployed, particularly by small and medium-sized enterprises, including those in industry. Companies employing more than 500 workers, on the other hand, account for just 18%. This measure is used particularly frequently in the service sector, which is the origin of 45% of new ARPE recipients. Since the introduction of this measure, around 85,000 replacement recruitments have been made, of which 35,000 occurred in 1997. Of those recruited, 69% are men and 62% aged under 30. Almost all new recruits are taken on under a permanent contract, and almost 80% of them in full-time employment.

Other measures recently introduced by the government have served very clearly to discourage “active ageing”, by freeing certain types of older workers from the obligation to look for work:

- In January 1997 the benefit for the older unemployed (ACA) was introduced as a result of negotiations between the social partners. It affects older unemployed persons aged under 60 who have accumulated at least 160 quarters of contributions to the pension insurance system, without a minimum age. Recipients of this benefit must be registered as looking for work, however. At the end of 1997, there were a total of 50,000 recipients of ACA.
- Since 1 June 1998, under the framework of the “law against exclusion”, unemployed persons receiving benefits under the “solidarity regime” (ASS) or minimum income supplement (RMI) who have also contributed to the pension insurance scheme for 160 quarters may claim a special “waiting allowance”.

In future, older workers may be exempted from the obligation to look for work.

These redundancies of older workers aged over 55 effectively amount to disguised early retirement.

In addition, ARPE is restricted to workers aged over 58 – or in special cases to those aged 56 and 57 – who began working at the age of 14 or 15, whereas the same is not true of ACA or ASS. There is a risk of the latter schemes competing with ARPE and ASFNE, as they permit all unemployed persons who have paid contributions for forty years to enter quasi-retirement without an age constraint, or compensatory recruitment or an agreement with the authorities.

Alongside these measures that promote early retirement, the French state also provides support for gradual retirement, although for firms the conditions of access to this measure are being tightened in the same way as for complete early retirement.

The only active special measure that currently permits, at least partially, older workers to be retained in the labour market, is “progressive early retirement”. Instituted by a law passed in December 1992, the progressive early retirement agreement has three aims:

- to contribute to the development of part-time work and new forms of work organisation;
- to facilitate an improved personnel management of older workers by firms; and
- to promote the labour market integration of target groups. To this end, the firm commits itself to recruiting a certain, relatively large number of jobseekers. This obligation does not apply if workforce restructuring occurs within the framework of a social plan.

In addition, the measure aims to support the transmission of skills and know-how to new recruits, especially in the form of “tutorships”. In 1997 the results of this scheme were not particularly satisfactory from this point of view: less than 15% of enterprises had set up such tutorships, and in most cases these were firms with more than 500 employees.

It is industry that makes greatest use of the measures for progressive early retirement, and the relative importance of this sector appears to have risen further in 1997. Also pre-

dominant in such schemes are firms employing more than 500 workers.

In return, the enterprises signing agreements on progressive early retirement must meet one of the following two conditions:

- Replacement recruitments: in 1997 a reform of the provisions on early retirement was introduced with the aim of raising the obligations in terms of recruiting unemployed persons from groups facing particular difficulties on the labour market. Since then, the minimum proportion of recruitments from target groups (including youth, the long-term unemployed and recipients of minimum benefit) has been set at 50%, and two-thirds of the recruitments must be young people.
- Payment of a financial contribution (the so-called Delalande contribution): with the 1997 reform, the payment of a financial contribution became obligatory (with the exception of companies that have signed re-recruitment agreements, employ less than 250 workers and which commit themselves to drawing 90% of their recruitments from among the target groups). This financial contribu-

tion depends on the size of the company and the number of replacement recruitments from among the target groups.

Currently, it should be noted, the government is considering whether to double the “Delalande contribution”<sup>2</sup>. The question is, namely, whether the desired reduction in the number of exits by the over-50s brings with it the danger that, by paying the contribution, fewer persons aged 45 or older will be recruited. Moreover, the contribution might constrain the mobility of workers aged over 50, which would make their situation even more inflexible.

It has been observed that already the implementation of the reform has been followed by a decline in the number of agreements, particularly of those with compensatory recruitment (cf. Table 3).

Among recent developments, it might be thought that the incentives to reduce working time established by the 35-hours law might in effect contribute to retaining older workers on the labour market. Indeed, this is one of the aims expressed by the

<sup>2</sup> Proposed in the French National Action Plan for employment, presented in June.

**Table 3: Entries into progressive early retirement by economic sector and enterprise size (compared with the workforce in the respective sector/enterprise size category) (in %)**

	Progressive early retirement in 1996	Progressive early retirement in 1997	Employees covered by UNEDIC as of 31 December 1996
<i>Economic sector</i>			
Agriculture	0.8	0.4	0.1
Industry	52.6	59.5	27.6
Construction	4.8	3.7	8.2
Services	41.8	36.4	64.1
<i>Enterprise size</i>			
Less than 10 workers	23.8	23.2	26.1
10–49 workers	10.3	9.0	29.0
50–199 workers	17.0	17.3	22.6
200–499 workers	14.9	17.0	11.5
500 workers and above	34.0	33.5	10.8
Totals	100.0	100.0	100.0
Source: UNEDIC.			

French government in its latest National Action Plan for employment. What is required, however, is a means of evaluating the extent to which this measure will help retain older workers in their jobs.

The results of the law on the implementation of a 35-hour week, one year after it was introduced, are mixed in this respect:

- 1.1 million workers were affected out of a total of 15 million in the private sector and more than 22 million in total;
- it has been the large, publicly owned enterprises that have made the biggest contribution (EDF-GDF, SNCF, RATP, Air France, etc.).

The vast majority of firms is awaiting the second law and the obligation to apply it before introducing the cut in hours. The social partners take directly opposing views of the reform.

In view of this, the official figure of 57,000 newly created or retained jobs, albeit without precise details concerning the nature of the employment relations, must therefore probably be treated with caution. It will only be possible to make a conclusive evaluation once the law has been introduced in full and calculations of job-creation and job-destruction effects have been made; many firms, namely, are threatening to resort to outsourcing or to reduce their workforce in line with productivity growth.

Even so, the application of the law on the flexibilisation and reduction of working hours has undeniably had the following effects:

- a renewal of social dialogue at firm level (through the obligation to negotiate on implementation);
- the necessary recognition of the organisation of work and its impact on productivity and working time.

There is still no discussion of the effects on the retention of older workers in the labour market, although both the resumption of the social dialogue and the reorganisation of work are elements that could contribute to this aim indirectly.

## Developments at the level of companies

The policies implemented by government until recently have served to leave a primarily negative image of older workers in the minds of most people; they are to make way for younger workers, and government is to take responsibility for older workers by way of measures for target groups or specific measures to provide additional benefits to older workers through the unemployment insurance fund and early retirement provisions, despite the increasing constraints on such policies imposed by the government.

An enquiry conducted by DARES (Ministry of Employment) in 1992 of a sample of 1,000 enterprises revealed the rather negative view of older workers held by employers (DARES, 1994). More than half of them are reluctant to recruit, or are totally opposed to taking on, older workers, even preferring young people without qualifications or the long-term unemployed. These employers justified their behaviour in terms of the lower productivity of older workers together with higher wage costs, reflecting a reduced ability to adjust to changes and to make use of new technologies.

Equally, a number of studies have shown that many workers, especially in the industrial sector, are keen to retire early from working life. A study by CREDOC conducted in 1994, for instance, revealed that 73% of the French population consider early retirement to be the preferred solution in case of redundancy.

There has therefore been a degree of consensus between the social partners in this area, whether at enterprise or institutional level. And indeed, UNEDIC has remained committed to the idea of early exit from the labour market, as shown by the implementation of the ARPE scheme in 1995. In 1997, ASFNE agreements were reached for 108,000 people, 55,000 entered progressive early retirement and 66,000 entered the

ARPE scheme; thus, a total of 229,000 people entered early retirement.

Firms make use of public policies supporting early retirement in order to rejuvenate their workforce age-pyramid and reduce their total wage costs. Gradually, public early retirement policies have become a tool of human resource management for companies. Older workers are incorporated into the social plans agreed to manage redundancies as a matter of course.

A number of companies have drawn up their own schemes, known as "enterprise early retirement" (*préretraites d'entreprise*), mostly on the basis of an intersectoral or branch-level collective agreement, particularly in traditional industrial sectors undergoing major changes and whose age structure is seriously affected by ageing. Such "enterprise early retirement" schemes are normally based on a reduction in working time, in some cases to "zero hours", until retirement age, whereby the employer undertakes to top off the wage in part or full.

A look at the collective agreements signed reveals that measures to retain older workers in French companies are currently virtually non-existent, notably because "the views held by managements of past and future trends in the relative weight of the extreme age groups in their workforces generally reflect a lack of attention to ageing processes within their workforces and a misapprehension concerning the actual demographic data pertaining to their staff".

There are a few, rare, positive examples, such as that set by Crédit Agricole, one of France's leading banking groups. On the basis of an agreement reached in December 1993 on forward personnel planning, one of the regional divisions of Crédit Agricole embarked on a cautious process of re-attaining a balanced age structure. At that time, 60% of the 700 staff were between 40 and 50 years of age, and 15% over 50, so that 75% of the workforce was over 40.



Alongside an intensive programme of further vocational training for staff members, which enabled a total of 120 employees to change profession, the agreement provided incentives to switch to part-time work; the company paid the difference in pension contributions between a full-time job and the part-time work chosen. Assured of receiving a full pension on retirement, employees reacted favourably to this offer, and the proportion of staff working part-time rose from 7% to 10%.

However, it is clear that the success of the agreement was based primarily on the organised exit, on a strictly voluntary basis, of a large number of workers aged between 40 and 49. For a period of two months, an information point was open in which five advisers provided information, in response to their questions, to those staff members potentially affected. Of 48 staff who wanted to leave, 14 stopped working, 6 changed profession totally and 24 set up or bought out another company. In addition to logistical support, those leaving received a redundancy payment slightly in excess of the provisions in the relevant collective agreement. In return, the company was able to take on around 40 qualified youngsters. In the light of this convincing experience, other regional divisions of the *Crédit Agricole* have made known their interest in this model, and it is likely to be emulated within the group.

Sectoral agreements signed in recent years have made no mention whatever of negotiations on measures to retain older workers. The only exception that has emerged so far is the already somewhat dated National Construction Federation (*Fédération Nationale du Bâtiment*). In 1992 it reached an agreement with the labour ministry under which workers aged over 55 in the construction industry were to receive the option of entering partial retirement; during the remaining working hours they were to assist apprentices preparing for a vocational qualification. At the time, the response to this

initiative was very limited, not least in the light of the economic crisis that hit this sector in the mid-1990s. Yet a significant proportion of the workforce in the construction and public works sector is aged 50 or older.

All these examples show just how little attention companies and the social partners have paid to these issues to date.

## Perspectives of older workers

According to the March 1997 employment survey by INSEE, the population aged between 55 and 59 is composed as follows: 53.2% are in employment, 2.3% are on progressive early retirement, 5.8% are unemployed, 14.4% are retired or on early retirement (of which 4.8% are on ASFNE and 2% on the ARPE scheme) and a further 26.7% are economically inactive for other reasons.

Although the labour market situation has improved in France in the past two years, with this leading to a decline in the number of jobseekers, the situation facing older workers has increasingly deteriorated. In 1997 the number of jobseekers aged 50 increased by 10% compared with 1996 and by 29% compared with 1995.

The unemployment rate among persons aged 50 or more amounted to 9.3% of the active population of this age group in January 1998.

The risks of remaining unemployed for those older than 50 are relatively high in France, and the situation does not seem to be improving, despite the positive developments on the labour market as a whole in recent months.

Moreover, persons aged over 50 do not constitute a priority target group for (re-)integration and employment policy as do, for example, the long-term unemployed, young people, recipients of minimum benefit or women.

Older workers do, however, have free access to general public measures, provided they are registered as

looking for work. Yet they have better chances of entering such measures if they are long-term unemployed or recipients of minimum benefit. The only measure that is directly tailored to those over 50 – and not merely indirectly, by way of their classification as long-term unemployed or recipients of minimum benefit – is the employment initiative contract (*Contrat Initiative Emploi*), although here, too, other groups are also entitled to participate. Currently there is not a single public policy measure geared directly and specifically to reintegrating older workers into the labour market.

Even so, following the impetus provided by the EU, in 1999 the concept of active ageing was incorporated into the French NAP for the first time. Although this reflects a degree of concern on the part of the government, the NAP does not contain concrete proposals concerning what the government intends to achieve by way of this concept.

In another, more positive sign of an increased interest in older workers on the part of the public authorities, the government has just commissioned an analysis of the prospects for a more gradual transition from work to retirement, one based, for instance, on the idea of a voluntary, progressive retirement.

Is this recognition necessary in the light of the ageing of the population?

“The ageing of the population is expected to perceptibly change the conditions for financing pensions, due to the following three factors:

- longer life-expectancy;
- the imminent retirement of the baby-boom generation. According to prognoses by INSEE and DARES, the entry into retirement of these cohorts will lead to a decline in the active population as of 2006, because from this point on the size of the cohort entering retirement will be greater than that of the cohort entering the labour force;
- entry into the labour force of smaller cohorts, due to the fall in fertility rates”.

The Charpin Report recommended an increase in the duration of pension contributions, confirming the reform begun in 1993 and extending it further. The reform of the overall pension system in 1993 also involved raising the insurance period (all systems) required to obtain a full pension entitlement by one quarter for every year from 1994 to 2003; at the end of the reform, the insurance period (all systems) required to claim a full pension will amount to 160 quarters (40 years), as opposed to 150 quarters (37.5 years).

A number of options are open to the state in its desire to raise the effective retirement age and take account of the ongoing increase in life-expectancy:

- either "a general increase in the retirement age; such a solution does not, however, take account of the different age at which people enter the employment system";
- or "raising the contribution period required to claim a full pension, which, by contrast, would take account of this parameter. This second solution permits those who started work early in life to leave working life earlier; it also constitutes a built-in mechanism to alter the retirement age in line with shifts in the age of entry into working life. This is why this solution is the one preferred by the Commission convened to draw up proposals for pension reform."

It is therefore probable that the new reform will bring about a very gradual rise in the retirement age to between 60 and 65 years, without going beyond that upper limit. Indeed, the reform specifies that "under no circumstances should the retirement age be increased beyond 65 years". By 2019 the insurance period is to be raised to 170 quarters, whereby this will be associated with better scope for including periods of education or inactivity in this total. The sole aim is to be an increase in participation rates among those aged between 60 and 65. This requires preparations to be made for the nec-

essary lengthening of the duration of working life.

The French National Action Plan for employment of 1999 paid particular attention to the question of whether older workers are to be privileged in terms of access to lifelong training. A move towards lifelong learning amounts to a major cultural change in France: training, ultimately geared to the individual, would become one of the major instruments determining individual employability and adjustment capacity. Such a move would go far beyond mere participation in individual training courses and would form an integral part of a professional career. The secretary of state for vocational training has stimulated debate by presenting a White Paper that seeks to mobilise the social partners and all those public authorities responsible for vocational integration (the Regional Councils). It is not yet clear what policy decisions will emerge from this concerted effort. More generally, though, it is well known that cultural changes proceed only slowly.

The privileged access to lifelong training emphasised in the NAP is far from being achieved, and, generally speaking, older workers are extremely seldom the main target group of firms' training measures: whereas 28% of all employees benefit from continued vocational training, the figure is just 19% for workers aged over 45.

## Conclusions

There has been a substantial improvement in the economic situation in France, and this is grounds for the hope that in coming years firms will pay greater attention to older workers, not least against the background of the increasing age of the working population. In the short run, the improvement in the economic situation may lead to two types of response by firms:

- pursuit of the current predominant trend, that is, a continued focus on a policy of early retirement

in spite of its increasingly high costs. Given that firms currently have the financial scope to pursue such policies, they may seek to bring about a swift change in the age structure of their workforce by this means;

- a change in their behaviour patterns, reflecting a will to retain older workers in the enterprise under the double impact of economic recovery and the introduction of the 35-hour week.

Depending on how quickly a company wishes to bring about changes in its workforce age-structure, both remain valid options, to the extent that the government does not introduce strong incentives to promote the retention of older workers in the firm and thus make a clean break with the past thirty years.

If the new orientations that seem to be sketched out in the new French NAP are to be implemented in practice, it will be necessary to counter a number of concerns on the part of employers in this area. Awareness of these concerns constitutes an important element in progress towards a government decision. Yet employers are not at all interested in such a decision, and their image of older workers remains negative. The new orientations must also take account of the concerns of individuals, that is, of workers. Given that the pension system permits them to retire early with only minor income losses, it is evident that they will continue to opt to leave the labour market prematurely. The prospect opened up by the French government will probably take time to come to terms with the concerns of labour market actors.

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## Age trends in the population and labour force

Let us begin by attempting to sketch the likely development of the Irish population over the next twenty years or so. The current situation regarding relevant statistics is rather fortuitous, for new and revised projections on the population and labour force have just been issued (July 1999).<sup>1</sup>

With regard to assumptions, the new population projections envisage a continuation of the current net migratory inflow (i.e. immigration) and, broadly speaking, a moderately falling fertility, even though different sets of assumptions involve variations in these trends.

## Future population trends

Summary data taken from these projections on the likely future population are given in Table 1. The broad message that emerges from these figures (which cover the period up to 2026) is that in Ireland, as in other European countries, the population is undergoing an ageing process. The population aged less than 25 years is set to fall significantly (especially in the 15–24 year-old age group), while the numbers in the older age groups are forecast to rise. However, a dis-

tinguishing feature of the Irish demographic scene is that the advance wave of this older age bulge has, as yet, only reached the “late middle age” stage (broadly speaking, up to age 55 to 59). Only modest increases are projected to occur in the numbers in the older age groups (i.e. aged 60 years and upwards) in the period up to 2006, even though subsequently the rate of increase will accelerate.

If the position is viewed in relative terms, the old-age dependency ratio (Table 2) will decrease in the ten-year period between 1996 and 2006, from 17.6 to 16.5. Inevitably, of course, in the following years, as the numbers in the older age groups begin to rise more rapidly, there will be a parallel rise in old-age dependency.

This increase will be particularly rapid after 2011; the old-age dependency ratio is projected to reach 23.0 by the year 2021.

These figures also reveal the ageing process that is currently taking place within what is regarded as the “active” age band. The final column of Table 2 shows the population aged 55 to 64 years taken as a proportion of that aged 15 to 64 years. This is forecast to increase from 12.4 to 14.9% between 1996 and 2006; by the year 2021, this ratio will have exceeded 18.

1 Cf. Central Statistics Office (1999a). The new projections contain projections of the population up to 2031 and of the labour force up to 2011.

**Table 1: Population projections, 1996–2026 (in 1,000s)**

Year	0–14	15–24	25–44	45–54	55–59	60–64	65+	Total
1996	859	633	1,016	412	154	138	414	3,626
2001	828	654	1,116	471	186	150	428	3,834
2006	845	599	1,222	509	225	181	452	4,031
2011	878	538	1,278	542	243	219	504	4,201
2016	874	539	1,269	566	261	237	585	4,331
2021	841	570	1,199	620	275	255	673	4,434
2026	796	578	1,127	685	287	270	767	4,510

*Note:* These projections are based on the “M1F2” assumptions as set out in the CSO report as referenced. These involve a continuation of significant net immigration (even if declining) over the entire projection period and decreasing fertility up to 2011.

*Sources:* Census of Population 1996; Central Statistics Office (1999a).

**Table 2: Population dependency ratios, 1996–2026 (in %)**

Year	Total dependency	Old-age dependency	Pop (55–64)/ Pop (15–64)
1996	54.1	17.6	12.4
2001	48.7	16.6	13.0
2006	47.4	16.5	14.9
2011	49.0	17.9	16.4
2016	50.8	20.4	17.3
2021	51.8	23.0	18.2
2026	53.0	26.0	18.9

*Notes:*

Total dependency = sum of the population aged less than 15 years and 65 years or over divided by the population aged 15 to 64 years.

Old-age dependency = population aged 65 years or over divided by the population aged 15 to 64 years.

Source: Central Statistics Office (1999a).

**Table 3: Labour force projections, 1996–2011 (in %)**

Year	15–24	25–44	45–54	55–64	65+	Total	45+ as % of labour force	55+
<i>Men</i>								
1996	154	470	182	92	27	925	32.6	12.9
2001	171	519	206	104	26	1,025	32.8	12.7
2006	156	570	220	122	25	1,093	33.7	13.5
2011	134	599	232	134	26	1,124	34.9	14.2
<i>Women</i>								
1996	127	328	86	34	8	583	21.9	7.2
2001	145	395	120	49	6	715	24.5	7.7
2006	130	452	149	65	6	802	27.4	8.8
2011	114	489	172	78	7	860	29.9	9.9
<i>All</i>								
1996	281	798	268	126	35	1,508	28.4	10.7
2001	315	914	327	153	32	1,741	29.4	10.6
2006	286	1,022	369	187	32	1,895	31.0	11.5
2011	248	1,088	404	212	33	1,984	32.7	12.4

Note: The labour force definitions used are those recommended by the ILO.

Source: Central Statistics Office (1999a).

It should be noted, however, that total or overall dependency, which takes both young and older members of the population into account, will fall in Ireland over the coming decades. Table 2 shows that the relevant dependency ratio, which was 54% in 1996, will fall to less than 50% by 2011 and will show only minor increases for some considerable time thereafter.

### Labour force projections

Turning to the labour force projections, which extend only to the year

2011, these show a continuing expansion in the total numbers in the workforce, even if at a falling pace (Table 3). Viewing the current situation, the labour force is estimated to rise from 1,508,000 in 1996 to 1,740,000 in 2001, reflecting an annual average rate of increase of just under 3%. Between 2001 and 2006, the annual rate of expansion is forecast to decline to about 1.7%, resulting in an increase in labour force size to 1,895,000 in 2006. In the period after 2006, labour force growth is expected to fall to just under 1%, giving rise to a total labour

force of 1,984,000 in the year 2011.

The projections indicate only a modest increase in ageing in the labour force, at least as far as the older age groups are concerned. The proportion of persons in the labour force aged 55 years or over is predicted to rise, from 10.7% in 1996 to 12.4% in 2011. This upward trend is somewhat more pronounced if the age group covering those aged 45 years or over is considered, but here it will be noticed that most of the increase is attributable to the female labour force. One would, perhaps, expect these increases to be greater, bearing in mind the age-related trends evident within the active population as described in the preceding analysis. As Table 4 shows, the outcome is, in fact, largely due to the assumptions used in the projections, which envisage a continuing decline in labour force participation rates among older males and single women.<sup>2</sup> It should be understood, however, in particular for men, that the labour force participation rates for the older age categories are quite high in Ireland when compared with international norms. These rates are influenced by the presence of sizeable numbers of self-employed persons, especially farmers. In this context, the ongoing decline in agricultural employment is likely to exert continuing downward pressure on labour force participation rates among older workers in general.<sup>3</sup>

## Policies relevant to ageing and older workers

### Basic measures

There are only a limited number of what can be described as special measures in Ireland that are “age re-

<sup>2</sup> For married women, the participation rates of the older age groups will continue to rise. However, this is due more to the greater involvement of married women in working life generally than to any developments which relate to older women in particular.

<sup>3</sup> It is possible, however, that the assumption of falling labour force participation rates among older males may have to be reassessed. Recent official estimates suggest that these rates have begun to rise (see below).

**Table 4: Labour force participation rates, 1996–2011 (in %)**

Year	15–24	25–44	45–54	55–64	65+	Total
<i>Men</i>						
1996	47.6	93.4	87.1	63.1	15.3	68.1
2001	51.2	93.3	87.0	62.0	14.0	69.4
2006	50.8	93.4	87.0	60.3	13.0	69.7
2011	48.7	93.4	87.2	58.3	12.0	69.0
<i>Women</i>						
1996	41.1	63.9	42.3	23.4	3.2	41.4
2001	45.1	70.6	51.5	29.2	2.5	46.8
2006	44.4	73.8	58.2	31.7	2.4	49.5
2011	43.2	76.7	62.1	33.6	2.4	50.7
<i>All</i>						
1996	44.4	78.5	65.0	43.3	8.4	54.5
2001	48.2	81.9	69.3	45.6	7.4	57.9
2006	47.7	83.6	72.5	46.0	7.0	59.4
2011	46.0	85.1	74.4	45.8	6.6	59.7

*Note:* The labour force definitions used are those recommended by the ILO.

*Source:* Central Statistics Office (1999a).

lated” in the sense envisaged. There are, however, as in most other countries, basic support programmes, mainly in the social protection sphere, which are designed to deal with or alleviate ageing or withdrawal from the labour force. There are, for example, contributory and non-contributory state pension programmes. The former, which applies at age 65 years, is dependent on the level of social insurance contributions paid. For the non-contributory measure, which is means-tested, eligibility is established at age 66. Both pension systems involve fixed absolute weekly payments (dependent on family circumstances), which are reviewed annually.

There are also occupational company-sponsored pension schemes for those in paid employment. The self-employed can also make independent provision for pension income. These schemes are voluntary (in the sense that there is no statutory requirement to participate), and the arrangements vary greatly from one employment to another. Approximately 50% of persons in the workforce in Ireland are members of one or other of these two types of scheme. The state also provides occupational pensions for its own employees, which are funded from current taxation on an ongoing basis. In

the case of private-sector pensions, for which eligibility is normally established at age 65, the amount of the pension is usually calculated on the basis of one-sixtieth of current salary for each year of service in the company. Basically, therefore, the amount payable is related to the period spent in pensionable employment, even though in many cases this can be adversely affected by problems of transferability of pensions in the event of job changes. This issue is further discussed later in the paper. For those in state employment, the amount payable as pension (on reaching 65 years) is based on one-eightieth of finishing salary for each year of service, subject to a maximum of 40 years.

There are also State Invalidity Pensions paid in circumstances of serious incapacity, to the extent that the person is classified as permanently incapable of work. For the contribution-based component, a minimum of five years of paid social insurance contributions is normally required to qualify. There is an equivalent means-tested measure (Disability Allowance) for persons who do not meet the required contribution levels. The basic weekly payments for these measures are similar to those paid in the case of equivalent state pension schemes.

In a labour market context, it is perhaps also appropriate at this point to refer to the Pre-Retirement Allowance Scheme (PRETA), which allows persons aged 55 years or over to “opt out” of the labour force and continue to receive unemployment benefit without requirements related to jobsearch, availability, and so forth. There is a condition that applicants sign a declaration stating that they will not take up employment. At age 65 or 66 years, these persons would become eligible for the normal state pension support. The total number of persons included under this measure was nearly 12,000 in early 1999. This measure is, of course, quite the reverse of what is intended under policies to promote active ageing, as it specifically discourages persons from remaining in the labour force. This scheme is not in any sense unique; similar measures exist in many other countries.

There are at present no specific policies for maintaining the working capabilities of older persons or for developing flexible working arrangements that would permit enterprises to adapt to an ageing workforce and allow workers to stay in work instead of being induced to take early retirement. Nor are there collective bargaining arrangements designed to promote employment opportunities for older persons. While there are manpower programmes designed to aid the reintegration of workers above certain age limits into the labour market, these limits are relatively low, and the programme participants involved cannot be considered “old” in the context of the current discussion. Some of these measures are described later in this paper.

### Recent policy developments

Concerning new or recent developments that could be considered relevant to the ageing process, these can be broadly classified under four headings:

1. proposed measures to deal with problems arising from pension provision;

2. initiatives to promote lifelong learning;
3. anti-discrimination legislation related to employment;
4. other measures.

While these activities may be relevant to the issues under discussion, apart from the first (i.e. pension provisions), none of them can be regarded as a specific response to the age developments in the population.

### Provision for future pension coverage

This is, perhaps, the area where most attention has been paid in Ireland to the future consequences of an ageing population. In February 1997, a consultative paper entitled "National Pensions Policy Initiative: Consultation Document" was issued jointly by the Department of Social, Community and Family Affairs and the National Pensions Board.<sup>4</sup> The purpose of this initiative was to set out in some detail the main issues and problems associated with pension coverage (especially the state schemes and occupational pensions) and to facilitate a national debate on how to work towards the further development of these systems in the light of expected demographic changes.

It is particularly interesting to note that this report refers to the question of activation or reactivation of the older workforce. It raises the possibility of persons who have retired to continue to earn income through working part time or taking up new occupations. The consultative report raises the further question, in view of changing work patterns (particularly the growth of atypical employment), of whether new, more flexible pension arrangements are desirable, which would be based on an individual's career rather than on each particular job held. The report also adds that because both public and private pensions normally have a predetermined age at which retirement benefits become payable, as longevity increases, the difference between the length of the contribution period and the period for which the pension is likely to be paid will increase. The

implication here is that the normal retirement age should rise unless contribution levels increase. The report thus asks whether the current approach to "normal retirement age" is sustainable and whether greater longevity renders it appropriate for people to work longer.<sup>5</sup>

The consultation process was followed by the publication by the National Pensions Board in May 1998 of a document containing specific proposals for improving the pension provision for workers in relation to state programmes and private occupational pensions (National Pensions Board, 1998). In regard to state pensions, the report called for changes in order to achieve a minimum pension equivalent to 34% of average industrial earnings over a five- to ten-year period. The attainment of this would, on the basis of recent research, result in a pension level sufficient to ensure minimally adequate support for a single adult (ESRI, 1996).

With regard to occupational pension schemes, one of the important aspects of the report was a recommendation to introduce Personal Retirement Savings Accounts (PRSAs). Briefly, such a device is an investment account which is owned by the individual. The contributions are lodged in investment funds, which are held and managed by an approved PRSA provider.<sup>6</sup> At an appropriate moment, the sum would be transferred to an institution authorised to offer annuities when a life annuity is eventually purchased. At present, if an individual's employment status changes, there is an obligation to cease contributing to the existing pension arrangement, if indeed one exists and the individual is a member. Although the person may start from scratch in a new arrangement, as careers become more fragmented the costs become increasingly onerous and unacceptable to both the individual and providers. In contrast, the owner of a PRSA would be able to continue it whenever a job change occurs or if there is an interruption of employment. Such an arrangement would be of particular

benefit to atypical workers and to persons in sectors which involve low coverage in terms of occupational pensions.

### Lifelong learning

With regard to lifelong learning, the most relevant recent development is the publication in November 1998 of a government Green Paper on "Adult Education in an Era of Life Long Learning" issued by the Department of Education and Science. However, the document deals with adult education in a wide societal context and thus covers more than lifelong learning and its relationship to the labour market. The publication of the document was not specifically prompted by the ageing process in the population, but it is, nevertheless, of obvious relevance when viewed in this context. The Green Paper does, however, specifically state that changing demographic trends will soon reduce the flow of highly qualified young entrants into the labour market, indicating the need for more investment in upgrading the skills of older workers, particularly the unemployed and those returning to the workforce.

The Green Paper attempts to take stock of the achievements and trends to date and to set out a framework for the future development of an adult education system. It is intended that the Green Paper should be a focal point for a wide-ranging debate and provide the necessary background for consultation with key interests, including education and training professionals, the social partners, students and community representatives.

A significant event which provided an impetus for this initiative was the publication by the OECD in

<sup>4</sup> This is a statutory body set up by the government under special legislation to monitor and supervise the operation of occupational pension schemes.

<sup>5</sup> Retirement age in the United States is currently 65 years, but this is to be increased to 67 years by 2027, reflecting increased longevity.

<sup>6</sup> This may be a bank, insurance company or another financial institution.



1997 of a comparative Adult Literacy Survey, which indicated significant literacy and numeracy deficiencies among the Irish adult population. The study identified other aspects of concern. For example, to the extent that existing adult education facilities are used in Ireland, they tend to be availed of by those who are already relatively well educated.

With regard to institutional reform, the Green Paper recommends the establishment of an executive agency (The National Adult Learning Council) in order to promote coordination, policy development and staff development within the adult education sector. This is considered to be of particular importance, given the numerous agencies involved in the provision of adult education. At local level, the establishment of Adult Learning Boards is proposed to coordinate and support the planning and provision of adult education on a local or community basis.

In terms of actual measures, the Green Paper recommends the development of a National Adult Literacy Programme to be targeted at redressing the major deficiencies as identified in the 1997 OECD report. It is also proposed that a national "Back to Education Initiative" should be introduced, aimed at widening the opportunities for adults to complete second-level education. It is recommended that third-level institutions should introduce a system of "mature student" quotas in as many faculties as feasible, and, in so doing, they should be aided by funding to support the additional costs of outreach, access, guidance and networking services. The Green Paper also considers that a stronger commitment to the ongoing development of Distance Education and Opening Learning Opportunities is an essential component of a comprehensive adult education system.

With regard to measures specifically related to the labour market, the Green Paper recommends some changes designed to improve the flexibility and responsiveness of the various measures run by the Depart-

ment of Education and Science. These relate principally to assisting early school-leavers and facilitating the reintegration of the older long-term unemployed. The changes envisaged include the introduction of more flexible, part-time options and a move away from the dominance of full-time programmes with a once-yearly intake in September. The paper also recommends that the feasibility of putting in place a programme of paid educational leave be explored in association with the social partners.

### **Anti-discrimination legislation in relation to employment**

The recent introduction of the Employment Equality Act of 1998 is of particular importance in the context of age-related issues in the labour market. This legislation renders it illegal to discriminate (either directly or indirectly) in employment matters on a range of grounds, including age.<sup>7</sup> All aspects of discrimination in employment are covered, including equal pay for work of equal value, access to employment, vocational training, conditions of employment, work experience, promotion and dismissal. The act makes it unlawful to advertise a job in such a way that the advertisement could reasonably be interpreted as indicating an intention to discriminate. It also provides for the insertion into every contract of employment a "non-discriminatory equality clause". The terms of the legislation apply to employers in both the public and private sectors and to employment agencies, vocational training bodies, trade unions and professional bodies.

It should be noted, however, that the inclusion of age among the grounds for discrimination in this legislation does not in any sense convey a specific relative advantage of older workers vis à vis workers in other age groups. Age in the context of this act covers discrimination at all ages. Nor does the act hinder or obstruct the principle that an employer is entitled to recruit a person with the attributes and skills essential for the

job on offer. The legislation also allows age discrimination in recruitment and employment in certain specified circumstances.

The act was brought into effect on 18 October 1999, when the new administrative arrangements set out in the legislation were established. These involve the setting up of an Equality Authority, charged with responsibility for promoting equality under each of the nine specified grounds, as well as a statutory Office of Director of Equality Investigations which hears claims for redress in the event of alleged discrimination.

### **Other measures associated with ageing**

There are few other special measures or initiatives that are of direct relevance to older workers or the issue of promoting active ageing. While there are a number of manpower support programmes in Ireland which involve lower age limits or have components which are restricted to those above a certain age, the limits in question (mainly 25, sometimes 35 years) cannot be regarded as "old" in the sense envisaged in this report. In fact, even with such age limits, an inevitable degree of "creaming" occurs, and the ages of most of the participants in these programmes would tend to be close to the lower limits specified. In these circumstances, participants aged 50 years or over are likely to be very few in number.

Among the various employment programmes involving age as a criterion, one of the most important is the Part-Time Job Option component of the Community Employment Programme. This measure, which essentially involves the provision of part-time work on publicly sponsored projects, is mainly restricted to persons aged 35 years or over who have been on the unemployment register for at least three years. This measure is relatively large: the target level of participation has been set at 10,000.

<sup>7</sup> The full range of grounds numbers nine – sex, age, marital status, family status, sexual orientation, religion, disability, race and membership of the travelling community.

## Perspectives of older workers

In view of the expected increase in the number of older workers in the Irish labour force, it is of relevance to review briefly the current employment situation of such workers. Table 5 shows unemployment rates by sex and age for the spring of 1997 and 1999. If one perceives "older" workers in this context as being those aged 45 years or over, the 1999 data do not reveal particularly high unemployment for this group. The unemployment rates for the various age categories over 45 years are equivalent to, or somewhat less than, the overall unemployment rate of 5.7%. The highest rates relate to young persons – over 11% for those in the labour force who were aged 15–19 years.

The data also reveal that unemployment as a whole fell significantly over the twelve-month period considered, from 10.3% to 5.7%. While all age categories recorded decreases, the relative reductions in unemployment were much greater for those in the younger age groups, indicating that the current period of economic growth in Ireland is providing greater benefits to young people.

Despite these generally favourable trends, there are some worrying aspects associated with these figures. Long-term unemployment (LTU) is particularly high among older workers. Table 6 shows that LTU, when taken as a share of total unemployment, was nearly 57% for those aged 45 or over in 1999 (64% for males), compared with 46% for persons aged 25 to 44 years and 27% for young persons in the 15 to 24 year-old age group. These results are consistent with many other analyses, which have indicated that the prospects for reintegration into employment for older workers (especially those nearing the retirement-age categories) are not particularly good. It was problems such as these that first gave rise to the introduction in 1990 of the previously mentioned PRETA

**Table 5: Unemployment rates by age, 1997 and 1999 (in %)**

Year	15–19	20–24	25–34	35–44	45–54	55–59	60–64	65+	Total
<i>Men</i>									
1997	20.2	15.7	10.1	9.4	9.4	7.3	5.1	1.3	10.4
1999	10.6	7.6	5.4	5.7	6.0	4.8	3.2	0.4	5.9
<i>Women</i>									
1997	23.4	12.5	9.5	9.0	9.4	5.6	4.0	6.3	10.3
1999	11.9	7.0	4.8	4.9	4.6	4.6	4.0	1.5	5.5
<i>All</i>									
1997	21.5	14.2	9.8	9.2	9.4	6.8	4.8	2.4	10.3
1999	11.1	7.4	5.1	5.4	5.5	4.8	3.4	0.6	5.7

Source: Central Statistics Office (1999b).

**Table 6: Proportion of long-term unemployment in total unemployment by age, Spring 1999 (in %)**

	15–24	25–44	45+	Total
Men	30.1	57.2	64.2	51.9
Women	23.6	27.9	40.0	28.8
All	27.2	45.7	56.5	42.9

Source: Central Statistics Office (1999b).

measure, which allows older unemployed persons to opt out of the labour force and retain their benefits.

It is encouraging, however, to note that the situation seems to be improving, albeit slowly. Apart from the declining unemployment rates already referred to, the most recent CSO Quarterly National Household Survey<sup>8</sup> indicates that the labour force participation rates among older male workers actually increased in the twelve-month period up to Spring 1999, following a very long period of decline. These more positive signs can be attributed to the general impact of emerging labour shortages in the Irish economy. While the evidence is, as yet, rather limited, the economic circumstances seem to be prompting employers to view older workers in a different light, and causing some workers to reconsider the option of withdrawing from the labour force as they near retirement age.

## General policy issues: perceptions of the problem of ageing

While a significant degree of ageing will eventually materialise in the

Irish population, the evolving demographic situation is different from that which applies in many other European countries, where the numbers in the pre- and post-retirement age bands have already risen sharply and are predicted to continue increasing. The differences are not only a matter of timing. Even when the ageing process in Ireland is more established, the age imbalance will not be as acute as that predicted for other European countries. The projections given in Table 1 indicate that, by the year 2021, the proportion aged 55 years and over in the total Irish population will be just over 27%. The corresponding projection for all EU (15) countries taken together for the same year is nearly 35%, and is even higher for some individual countries (e.g. Germany) (see Eurostat, 1999).

Yet, one should not view the ageing process in Ireland in isolation. The falling population in the younger age bands tends to offset some of the disadvantages arising from ageing. The overall dependency ratio, which takes both the dependent young and

<sup>8</sup> This survey, which was introduced in October 1997, has replaced the annual Labour Force Survey.

the effects of changing numbers of older persons in the population into account, is set to fall in Ireland over the next two decades. Table 2 shows that even when it begins to rise again after 2016, it will, broadly speaking, only return to current levels (i.e. about 50%).

It must also be borne in mind that the above-mentioned indicators, even where they predict higher dependency in decades to come, involve much lower levels than those which prevailed in Ireland in previous periods when emigration was high. The overall dependency ratio was as high as 75% (and old-age dependency nearly 20%) in the late 1960s and early 1970s. It is against this background that one must view current attitudes towards ageing and dependency in Ireland, which do not tend to be as apocalyptic in nature as some of those prevailing in other European countries facing high levels of dependency for the first time. A recent 1998 paper by Fahey, FitzGerald and Maitre contains a more detailed discussion of these and related issues.

These reasons serve to explain why thus far there has not been a perceived need in Ireland to single out the problem of ageing for special attention, either in regard to the labour force or in relation to social protection issues generally (apart from the question of pensions discussed earlier). In considering developments

such as "activation" of older workers, one must also bear in mind that in recent decades the main thrust of many labour market policies in European countries has been to counter unemployment, especially youth unemployment. Until relatively recently, many measures, far from encouraging the activation of older persons, were designed to promote their early retirement in order to open up employment opportunities for others. As already indicated, market forces in the form of labour shortages are likely to cause this situation to change in Ireland over the coming years, especially as the numbers entering the labour market from the educational system begin to fall.

While the longer-term demographic scene need not necessarily be viewed with undue foreboding, a number of analysts (including Fahey, FitzGerald & Maitre, 1998) have emphasised that the easing of demographic pressures which will occur over the next twenty years presents a "window of opportunity" that should be availed of in order to address pressing social issues and inequalities in Irish society. Overall dependency may be set to fall during the coming decades, but age dependency will eventually rise and begin to reach historically high levels towards the end of the second decade of the next century. This will require a significant reallocation of public resources.

There is also a danger that the unprecedented levels of economic buoyancy experienced in Ireland throughout the 1990s may lull society into a false sense of security. Since 1993, the public finances have been transformed, and the sizeable budget surpluses that have emerged in recent years have led to a situation in which the problems affecting most groups in society are now being addressed to a greater extent than previously. However, the days of plenty cannot last forever, and there is a strong argument for taking advantage of the current favourable circumstances in order to initiate policy measures designed to cater to future changes in society and in the population at large, including those related to ageing.

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# Italy

## Introduction

Two recent trends are particularly relevant in Italy in relation to the issue of older workers and the labour market. The first is the intensity of population ageing, which is greater than in other European countries. The second is the very sharp decline in activity and employment rates among men over 50 years old.

Recent estimates on demographic trends (Aprile et al., 1997) show that the ratio of the old-age (above 65 years of age) to the active-age population (20–64 years of age) is going to increase rapidly from 27% in 1996

to 29% in the year 2000. By the year 2020, this ratio is estimated to be 39.5%. Trends in participation rates are likely to worsen the problem of a shrinking active-age population. Participation rates have, in fact, been declining since the 1980s, especially among males in the 55–59 age bracket. In 1998, participation rates among males aged 55–59 were only 53.9%, compared to 65.1% in 1993 (Table 1). Employment rates have been sharply declining for males in the 50–59 age bracket. These trends are linked to the possibility of receiving social welfare and early retirement benefits and to the preference

of firms for younger, less costly and more flexible and productive workers (Contini & Rapiti, 1994; ISFOL, 1998). According to a recent comparative study (Blondal & Scarpetta, 1999), Italy has the biggest incentives for early retirement among OECD countries.

Unemployment rates, even if still much lower than those for younger cohorts (because older people out of work usually leave the labour force), are increasing, especially among those aged between 50 and 64, from 2.9% in 1993 to 4.8% in 1998.

The situation of older women is different than that of men: participation and employment rates are increasing even in the 50–59 age bracket, probably because of different eligibility conditions in relation to early retirement provisions.

The possible consequences of these trends for the social protection system are problematic, given the generosity of the Italian pension system and the low effective age of retirement.

## Changes in the policy framework: recent trends

In the 1990s, due to the need to reduce public spending and control the rapid expansion of the pension system, a process was started to revise both the pension and the social support systems.

The pension reforms were aimed at relieving financial unsustainability through pension cuts (1992 reform), the gradual switch from an earnings-related to a contributory pension formula, the introduction of the principle of actuarial fairness and of flexibility in retirement age (1995 reform), and the speeding up of the abolition of remaining differences between public and private employees and self-employed workers regarding early retirement (1997 reform).

**Table 1: Main labour market indicators\* by age (in %)**

	Participation rates		Employment rates		Unemployment rates	
	1993	1998	1993	1998	1993	1998
<i>Total</i>						
15–29 years	50.7	49.8	39.1	36.8	22.9	26.1
30–39 years	77.0	78.5	71.3	70.6	7.4	10.0
40–49 years	73.0	75.2	70.1	71.0	3.9	5.6
50–54 years	59.0	59.0	57.0	56.1	3.3	4.8
55–59 years	41.7	37.8	40.6	35.8	2.7	5.1
60–64 years	19.7	19.0	19.4	18.3	2.0	3.8
65 and over	4.1	3.6	4.0	3.5	2.0	1.5
Total	47.9	47.6	43.0	41.8	10.2	12.3
<i>Men</i>						
15–29 years	57.2	55.4	46.2	43.1	19.2	22.2
30–39 years	95.6	94.9	90.9	88.3	4.9	7.0
40–49 years	95.3	94.8	92.8	91.0	2.6	3.9
50–54 years	83.0	80.0	80.8	73.3	2.7	4.0
55–59 years	65.1	53.9	63.3	51.1	2.8	5.2
60–64 years	32.3	31.1	31.7	29.9	2.0	3.9
65 and over	7.0	6.3	6.9	6.2	2.0	1.2
Total	63.1	61.0	58.3	55.2	7.6	9.5
<i>Women</i>						
15–29 years	44.1	44	31.8	30.4	27.8	31.0
30–39 years	59.3	62.0	52.1	53.0	11.4	14.6
40–49 years	50.4	55.7	47.3	51.1	6.3	8.3
50–54 years	35.8	39.0	34.1	36.5	4.8	6.4
55–59 years	19.8	22.6	19.3	21.6	2.4	4.6
60–64 years	8.5	8.0	8.3	7.7	2.0	2.9
65 and over	2.0	1.7	2.0	1.6	3.7	4.3
Total	33.9	35.3	28.9	29.3	14.8	16.8

\* ISTAT is currently recalculating labour force time series from October 1992 onwards in order to adapt to EU standards, but revised data are not yet available.

Source: ISTAT: Labour Force Survey 1993, 1998.

Most commentators argue that these reforms were needed, but that, in providing for a too lengthy transition period,<sup>1</sup> they leave little room for private pension funds and continue to safeguard the “acquired” pension rights of present workers (including early retirement provisions). In this way, the main burden of adjustment is placed on the younger and future generations. In addition, the financial imbalance of the pension system is still a problem due to the low weight given to the contributory portion of the system.

### Policies concerning legal retirement age

The 1995 pension reform introduced a new mechanism aimed at the flexibilisation of the retirement age, which is now set at between 57 and 65 years of age. Pension income is proportional to retirement age. To get full benefits, retirement age should gradually increase to 65 for males and to 60 for females. In addition, an age limit on seniority pensions was introduced, which is approaching 57 years of age. The new system is also more generous to workers with interrupted working careers; it facilitates supplementary pensions and the possibility for people older than 65 years to receive a pension as well as earned income.

### Pathways to early exit

Public measures supporting early retirement and/or exits of older workers from employment are numerous and widespread in Italy, while options for gradual retirement are not adequately supported and, up to now, little used. The main instruments available for early retirement are presented in Table 2. Of the total pensions provided by the National Institute of Social Insurance (INPS)

<sup>1</sup> The transition period will end only in 2035, while seniority pensions will only be abolished in 2013. According to most commentators, financial equilibrium will be reached only around the year 2050, when the new contributory regime will be fully phased in. Until then, the yearly deficits will have to be covered by public funds (STAT, 1997).

Table 2: Main pathways to early exit			
Title and date	Aim and description	Financing	Take-up
Seniority pension	Since 1995, reform available to workers with 35 years of contributions and 52 years of age. From 2008, 40 years of contributions (30 years for public employees) will be required, with no age requirements. With the 1997 agreement, the age requirement in the case of 35 years of contributions was increased by one year. Self-employed workers have an age requirement of 57. In some cases, retired workers with a seniority pension can cumulate income from part-time work with part of the pension.	Individual/firm contributions + state	Numbers fluctuate over time, but increased in recent years. 1,250,000 in 1997 below standard retirement age.
Early retirement schemes	Workers aged at least 55 (men) and 50 (women) employed in restructuring industrial enterprises with at least 15 years of contributions receive the full pension. In recent years, workers aged at least 53 (men) and 48 (women) with 18 years of contributions are also included. Usually, early retirement schemes represent the last step of a long period of permanence in special unemployment or short-term schemes (mobility lists and CIG).	Five to ten years of contributions paid by the state. Financing is usually 70% from public funds. Confindustria (1996) estimates an average burden on public funds of ITL 100 million.	Stock in January 1998: 391,000  Stock in January 1998: 100,000
Programmes for Long-Term Unemployed	Older workers on mobility lists before 1993, who are five years short of early retirement age (55 years) and have at least 15 years of contributions, may receive benefits until early retirement; prime age workers may combine CIGS and mobility benefits for a maximum of five years (or six years in southern Italy). Mobility benefits (80% of last wage with a ceiling equal to 65% of the remuneration of the average worker) lasting 12 months may be extended once for workers over 40 and twice for workers over 50, so as to reach the age eligibility for seniority pensions. To qualify for this benefit, a worker must have an employment record of 12 months and be laid off under a collective dismissal due to restructuring, reorganising or conversion of a company, or due to a crisis situation or bankruptcy. In addition, workers have to have been employed in industrial companies with more than 15 employees or in commercial companies with more than 200 employees.	Partial contribution by firms	

in January 1998, around two million are seniority pensions (equivalent to 14%) and 390,000 (3%) are special early retirement provisions. All in all, 9.4% of total pensions are granted to individuals below the standard retirement age (which is currently between 57 and 63), amounting to a sum equivalent to 17.7% of total pension transfers.

The different instruments are often used in sequence in order to reduce the age of retirement. A stock of around two million workers below standard retirement age was interested in these different forms of early retirement in 1997 – an increase of 66% since 1990. The composition, however, has been changing, and there has been a sharp increase, especially since 1995, in seniority pensions (+332%), mainly aimed at male workers, and a reduction of invalidity pensions (-27%), which are now subject to more intensive controls and restrictions. Early retirement schemes have been reduced since 1992; they have been substituted in part by long-term mobility schemes.

In the 1990s, there has been a progressive increase of early retirement among self-employed workers through seniority pensions; since 1996, seniority pensions for self-employed workers have exceeded those for dependent employment.

### **Policies to increase participation rates, to retain and integrate older workers and to promote flexible working as well as gradual retirement provisions**

As stated in the 1999 Italian NAP, in the current legislative framework there are no measures aimed at fostering the active labour market participation of older workers, and the NAP itself does not deal much with this issue. The seniority pension system, the generosity of early retirement provisions and the strict constraints on the possibility of cumulating work and retirement income have all discouraged active ageing in

the labour market. Up to now, the traditional approach of all social actors has been to favour the exit of older workers in order to support the employment of young people. An indicator of this approach is the trade unions' attitude, mainly based on guaranteeing a supported pathway towards early retirement.

Only in recent years, with the increasing evidence of the shortcomings of the current pension system and the necessity of a pension reform, is the issue of promoting an active ageing workforce beginning to be considered by the relevant social actors. Attention is focused on reducing incentives to early retirement and supporting gradual and flexible forms of retirement. This implies a complete revision of the welfare and pension system and the provision of special employment services to the ageing population. The unions are increasingly aware of the need to revise the welfare system and to adopt a more active approach, but the defence of acquired rights is still predominant and reduces the space for agreements in this field. The lack of extensive, integrated services for the aged places much more attention on the need to provide effective social and health services rather than on offering employment opportunities. Attention is given to supporting socially useful jobs and voluntary work rather than to supporting access to and maintenance of remunerated work.

The 1999 NAP stresses the need to support active ageing through a revision of norms relating to the possibility of cumulating pension and labour income and the reinforcement of gradual retirement provisions and part-time possibilities for older workers, together with the anticipation of social security coverage for individuals engaged in community work and socially useful jobs. In addition, the NAP includes recommendations for the social partners to agree upon contractual mechanisms supporting reductions in working time in favour of workers' continuous training and education.

The possibility of gradual retirement through part-time work by older workers has been present in the Italian legislation since 1994, but it is not widespread due to the lack of proper financial incentives and the generosity of seniority and early retirement schemes. Only the Treu package of 1997 and the recent Finance Law consider contributions and financial incentives.

The May 1999 Finance Law includes a mandate to the government to provide, by December 1999, specific measures supporting the so-called "old-young relay", that is, the promotion of forms of work-sharing between older and young workers through part-time contracts. Full-time older workers eligible for seniority pensions may integrate pension income and income from part-time work; the reduced working time of older workers is to be compensated through part-time employment of younger workers. This possibility is extended to self-employed workers with seniority pensions who may decide not to retire but to reduce their working time and hire new workers or new partners or regularise hidden jobs.

Other measures have been available since the early 1990s but have not been used much up to now. Self-employment and social cooperatives among older workers currently involved in socially useful jobs are financially supported. Employers who hire older workers included in CIG or mobility schemes are exempted from paying social security contributions for one year, and special training and retraining programmes are carried out by local public agencies for the reinsertion of older unemployed in the private sector or of retired workers in socially useful work in the environment and in personal services.

One of the main obstacles to the integration of older workers in the labour market is their lack of updated competencies and skills and their low educational attainments. In 1998, only 14.4% of the population older than 50 years had an upper-



secondary school-leaving certificate, while 57% of the male population and 71% of the female population had at most the elementary level, equivalent to five years of schooling (47% and 60%, respectively, in the 50–64 bracket).

The Italian NAP specifically considers the need to increase the learning opportunities of low-skilled older persons through lifelong learning and indicates an experimental project by the Education Ministry, other administrations and the social partners aimed at adult, low-skilled unemployed. By December 1998, 389 permanent training centres had been created in 89 provinces, and 7,288 courses had been organised for about 150,000 trainees. This project will be extended to 200,000 beneficiaries in 1999 and to 250,000–300,000 in 2001. Monitoring of the results and the characteristics of participants is also under consideration.

## Developments at the level of companies and sectors

### Restructuring the workforce making use of (or avoiding) early exit

Since the second half of the 1980s, collective agreements relating to industrial restructuring in Italy favoured a gradual substitution of older workers (over 45 years of age) by younger ones. This process was facilitated by specific labour market measures: the support for work-training contracts for young workers through social security exemptions and the extension of fixed-term contracts, on the one hand, and the possibility of using early retirement and other exit incentives for older workers (through special CIG provisions up to 1991 and long-term mobility schemes later on), on the other (ISFOL, 1998; Contini & Rapiti, 1994). Young workers are less costly for firms, more flexible and have higher educational levels: it is thus convenient for firms to substitute them for older workers, especially when there are special public provi-

sions to ease the exit of older workers from employment. A recent study on panel microdata from labour force surveys relative to dependent workers' flows in the private sector in the 1988–95 period shows that the age cohorts under 25 years present high net inflows into dependent employment in the private sector, while older age cohorts present net outflows, which becomes particularly relevant in the case of cohorts aged 45 to 52 (ISFOL, 1998). The net employment increase in the 1988–95 period of a little more than 50,000 units is thus the result of an inflow of almost 1,594,000 young workers (+2.8% per year) and an outflow of 1,493,000 adult workers (–2.7% per year). This turnover process has characterised all private sectors and occupational qualifications, but especially blue-collar workers in manufacturing, which reduced their overall employment share in the period considered.

### Company strategies and collective agreements for older workers

The main approach adopted by the social partners in collective bargaining has long been based on supporting an early exit from employment, because this allowed industrial restructuring without social conflict. In the recent past, solidarity contracts have been introduced in order to avoid lay-offs; these contracts provided, in a few cases, for the hiring of additional part-time workers to compensate for the working-time reductions of existing workers. These contracts were not much used until they were generously supported in 1993 and 1994.

In recent years, the attitude of the social partners is slowly changing: the emphasis is no longer on how to facilitate the exit of older workers through public resources but on how to reallocate all redundant workers into new productive activities. In some cases (as in the recent Phillips agreement), the reallocation is into dependent jobs, in others (as in the

AVIS case), by means of the conversion of a dependent contract into an autonomous one (outsourcing), providing resources to continue the contributions for pensions.

In many cases, however, the approach is still to facilitate, through the use of special integrative funds, the exit from dependent employment of older workers. In the banking sector, for example, the integrative pension fund may be used to support workers involved in restructuring processes through training and income-support programmes as well as to ease exit from dependent employment through specific income-support measures and the payment of additional contributions needed to meet retirement requirements.

### Training/manpower developments

At the company level, it is hard to measure the commitment to training and learning activities aimed at older workers because Italy lacks a structured lifelong occupational training system (ISFOL, 1998) and because data on public or private companies' initiatives are scarce. The data<sup>2</sup> that are available show that workers involved in lifelong training represent 1.5% of the labour force and that in 1997 47.6% of private-sector workers who had attended any kind of training activity promoted by their company were aged between 35 and 49, while the 50–64 bracket represented only 12.3% as against 39.6% of workers up to 34 years old. The data indicate a slight increase in provision of training to older workers as well as its selective nature. Older workers involved in training activities are usually more educated (47.5% with an upper-secondary certificate as against 3% of workers with only compulsory education) and have better prospects of promotion.

<sup>2</sup> ISFOL on Eurostat Labour Force Survey and data.

## Perspectives of older workers

### Employment risks, re-employment chances

Recent flow data show that older workers are more likely to lose their jobs in recent years and have lower prospects of finding another job. Of those in the 50–65 age bracket who were employed in April 1997, 13% were out of employment a year later, compared to 6.3% of the 15–29 age bracket and 2.6% of the 30–49 age bracket. In addition, only 27% of the unemployed in the 50–65 age bracket in April 1997 were employed one year later (20.4% women and 29% men), compared to 30.2% of the 30–49 age bracket and 23% of those under 30 years of age.

Availability for work is common among the retired population. An important motivation for working is the desire to maintain social networks and relations.<sup>3</sup> In 1998, 5.4% of retired people between 50 and 70 years of age were available for work (5.3% men and 5.5% women). Workers older than retirement age are largely self-employed or are employed in the informal or black economy, for there are legal disincentives for adding up pensions and income from dependent employment. In 1998, 78% of employed workers over 70 years of age were self-employed, as were 39% of the employed in the 50–69 age bracket. Of those aged over 70 and employed, 26% were in the agriculture sector, while 58% were in the service sector. Older dependent workers were mainly employed in services (65% of workers over 50 in 1998), while the larger share of the over-50s were blue-collar workers (45.4%).

Recent surveys show that older people, especially the retired in the 50–70 age bracket, are often employed in the black economy (men) or render non-remunerated care work for their families (women).

The percentage of those in work or available for work increases with educational level and income. In

addition, higher participation in the labour market is found more among older people living in the more economically developed regions of northern Italy than among those in the south, and in larger cities, where employment opportunities are better.

Older people are also active in the provision of social activities through voluntary work: in 1994, 3.2% of the population aged over 65 was involved in voluntary activities (4.2% in the 65–74 age bracket and 4.5% for males); this percentage increases to 5.1% when the entire retired population is considered (including the under-65s) and to 8.9% for people with upper-secondary and university education. Participation in voluntary social activities is much higher for highly educated older people, an aspect favouring the development of training provisions for older people.

### Earning situation and pension expectation

Recent research based on survey data (Brugiavini & Fornero, 1999; Di Biase & Gandiglio, 1998) showed that about 80% of pensioners' income comes from public pensions benefits (either old-age pensions, early retirement or survivor bene-

fits), income maintenance provisions or disability benefits. The remaining share is either investment income or earnings.

As shown in Table 3, the average gross income<sup>4</sup> for people living on pension provisions is about EUR 675. Seniority pensions and early retirement schemes provide a more generous average income than old-age pensions do (EUR 1,096 and EUR 1,055, respectively), and in both cases desegregated data show that the younger the worker, the more convenient the early exit. By contrast, the average old-age pension increases as the worker gets older.

Both seniority pensions and early retirement provisions have a greater concentration of recipients in the central income brackets: 59.6% of

3 A survey carried out for the Ministry of the Interior in 1994, based on a sample of 796 individuals over 55 years of age, showed that 42% of those in the 55–71 age bracket were still working, of which a quarter were working for social motivations. Among those not working, about half were available for work (Ministero dell'Interno, 1994). Another survey based on a national sample of the population over 54 years of age showed similar results, with 46% available for employment in socially useful work in environmental protection and personal care services (SPI-CGIL & CER, 1997).

4 Calculated as the ratio of the total amount of expenditure to the number of pensions granted.

**Table 3: Percentage distribution of pension schemes in force on/up to 1.1.1998 by pension amount and average gross monthly income (Employee Pension Fund)\***

Amount (in Euros)	Seniority pensions	Old-age pensions	Early retirement	Total (retirement pensions)	Invalidity pensions
Under 500	4.2	67.2	2.9	48.5	78.8
500–750	13.9	18.7	17.3	17.5	14.7
750–1,000	35.0	8.4	33.3	16.2	5.3
1,000–1,250	24.6	2.8	25.8	9.3	1.0
1,250–1,500	10.5	1.2	11.6	4.1	0.2
Over 1,500	11.8	1.7	9.1	4.5	0.1
Total	100.0	100.0	100.0	100.0	100.0
Average gross monthly pension	1,096	502	1,055	674	439

\* We only took into consideration the Employee Pension Fund: employees represent 62.8% of the labour force.

Source: INPS (1999).

**Table 4: Replacement rates pre and post 1995 reform**

	Pension income in percentage of gross average wage*			
<i>Pre-reform rules</i>	50	75	100	150
Type of pension				
Old-age pensions**	78.4	78.4	78.4	78.4
Seniority pensions***	68.6	68.6	68.6	68.6
	Number of contributory years			
<i>Post-reform rules</i>	25	30	35	40
Retirement age				
57 years	38.9	46.7	54.5	62.3
60 years	42.6	51.1	59.6	68.2
62 years	45.5	54.6	63.7	72.8
65 years	50.6	60.7	70.9	81.0
* Estimated for workers in manufacturing.				
** 40 contributory years hypothesis.				
*** 35 contributory years hypothesis.				
<i>Source: Di Biase &amp; Gandiglio (1998).</i>				

the former and 59.1% of the latter are in the EUR 750–1,250 bracket, whilst 62.7% of old-age pensions are under EUR 500.

The old-age pension replacement rates<sup>5</sup> for a dependent worker with a long contributory history (40 years) and earning the median wage of his cohort are at present around 80% (Table 4). Once the 1995 reform is phased in, this ratio will drop slightly to about 75%.

The Italian pension system differs considerably as regards the provisions for private and public employees and the self-employed, even if the 1995 and 1997 reforms have mapped out a convergence path for the three different schemes which aims for gradual harmonisation. Seniority pension eligibility criteria and the pension determination formula for public employees are more favourable than the system for private workers. As for the self-employed, pension entitlements are substantially higher than contributions, especially for some categories; on average, replacement rates are estimated in the 46–59% range (Censis, 1999).

Older women usually face worse economic and social conditions than men. On average, they have lower pension incomes due to interrupted careers and/or living on the husband's income/pension. In 1997, 70% of

pensions paid to men were seniority pensions, while 70% of pensions paid to women were old-age pensions (Di Biase & Gandiglio, 1998). Recent surveys (SPI-CGIL, 1997) show that 39% of older women live alone, and this percentage increases to up to 49% for women over 75 years of age. More than one third of older women who live alone (40% among those over 74 years) live only on reversibility pensions, which are usually too low to guarantee a sufficient income. The increasing share of working women in younger generations implies an improvement in the income conditions of older women in the future, but a worsening in the provision of assistance coming from relatives due to the reduction in birth rates and increasing participation rates among women.

Private pension funds have played a negligible role in the Italian pension system and economy as a whole up to now. After a failed attempt in 1992 to encourage the creation of a private pension system, the 1995 reform took up this issue and 1999 legislation provides for a change; financial flows are now directed towards severance pay funds (Tfr) (Brugiavini & Fornero, 1999). Expected financial flows from pension funds are estimated at EUR 2.6 billion in the five-year period 1996–2001, involving

six million employees (Censis, 1999). The recent legislative proposal to be approved by the end of August 1999 provides for allocating Tfr flows in shares of pension funds instituted by workers. Participation in pension funds is voluntary. The lack of support given to the development of an integrative private pension system is particularly problematic given the increasing share of workers with interrupted work histories or freelance or collaboration contracts who cannot rely only on the low public pension income from the new contributory system.

### Access to training and lifelong learning

Adult education and lifelong learning have been little developed in Italy. Only recently, with the support of the ESF and the attention given to these issues by the 1993 Income Agreement and the 1996 Employment Agreement, some initiatives have been implemented.

The most considerable financial support for lifelong training and manpower development at the company level comes from the institution of a training fund under Law No. 236/93 and from the European Social Fund (Objective 4), both of which support experimentation in this field. In particular, ESF projects have been carried out through the integration of local institutions and firms.

On 21 July 1999, the Italian government approved the Integrated Long-term Plan on training, education and research guidelines (Master Plan). As far as lifelong training is concerned, it aims to quadruple the current number of individuals involved in lifelong training activities in a few years' time.

In recent years there has also been a diffusion of different activities aimed at the aged (Tramma, 1996),

<sup>5</sup> The replacement rate measures how convenient it is for the worker to exit the labour market: it is usually defined as the ratio of the last earned income to pension provisions.

especially in the field of "older-generation universities", which numbered more than 300 in 1997 (Caracciolo & Frey, 1997). A 1993 survey (Gammarota, 1994 and 1996) showed that most users are women (70%) with relatively high educational levels: 12% have a university degree (compared to only 3.8% of the population aged over 50), while 37% have an upper-secondary certificate (compared to 8.7% of the population). The average age is 58–60 years, and the main motivations for attending courses are the need to overcome the social exclusion linked to ageing, the need to improve mental and physical autonomy, the need to be involved in new cultural and leisure activities and the need to improve one's knowledge.

The main problems with these activities relate to the low investment in new methodologies and competencies specifically targeted at the aged, for most of the teaching and organisation are carried out by volunteers. Some interesting experiments are, however, being carried out in recent years, with the support of the ESF, with a focus on widespread diffusion throughout the country in order to favour: participation and the application of the principle of inter-generational solidarity through the provision of training and educational services; the development of adequate training methodologies aimed at the less educated among the aged; and recognition of the experience accumulated by the aged through their involvement in social activities.

There is an increasing need to co-ordinate the various activities currently operating in Italy and to develop specific strategies for the aged. According to experts, the development of long-distance learning represents an important opportunity for older people, and specific attention should be given to the use of television as a vehicle for training. A few experiments in this field are being carried out by Italy's public television company, which reaches a large share of the aged population in Italy<sup>6</sup> (Caracciolo & Frey, 1997).

### The early retirement vs. unemployment choice

Public pensions have been, and still are, largely used in Italy for general welfare provisions, given the low level of other income-support provisions. Early retirement measures are much more convenient than unemployment benefits, both for workers and firms: because they are much more generous,<sup>7</sup> they are more easily accepted by workers and unions and ease the substitution of older, more costly workers with younger, more flexible workers. They thus ease the restructuring process of the industrial sector in Italy, but they are very expensive for public finances, create equity problems in terms of differences in treatment of those out of work, and, since in most cases there are disincentives to adding any income from employment, reduce the intensity of jobsearch and job mobility while increasing the supply of labour in the black economy.

The partial reforms of the pension system in the 1990s did not remove early retirement provisions, an issue too delicate and difficult to tackle by the unstable political government alliances of these years without a more comprehensive reform of the welfare system. A government commission is currently working on the reform of social shock absorbers. The government proposal should be completed by the end of 1999, after consultation with the social partners and the parliament. The aim is to design a system that adequately supports the unemployed without, however, reducing the incentive to both search actively for a new job and accept existing employment opportunities. The system is to be based on three instruments: a temporary unemployment benefit to insure against the risk of losing a job, a subsidy in case of reductions in working hours and an assistance benefit for low-income groups.<sup>8</sup> Early retirement schemes should be abolished by the year 2000, and seniority pensions should be reduced by at least 40%, while part-time work should be strongly supported for

older workers. Main problems relate to the amount of public resources necessary to finance assistance benefits and the trade unions' opposition to the reduction of seniority pensions.

### Conclusion: policy options

It is only recently that the concept of "active ageing" is emerging among social actors and policy-makers in Italy because of the large and increasing share of relatively young persons retiring from working life, together with increasing life expectancy. The approach adopted is, however, more concerned with improving the social integration of older people than with their "employability" through specific actions to support labour market participation.

Unions representing retired workers within the major confederations are the only ones registering increasing memberships, which compensates for declining unionisation rates among employed workers.<sup>9</sup> This has increased the attention given by unions to the needs of retired workers through defending acquired rights in the pension reform process and implementing measures to support the activation of older workers in voluntary and socially useful

6 A recent survey (Zuliani, 1994) showed that more than 97% of people aged 45 or over watch television, while books are read by only 35% of people aged between 45 and 54; the latter percentage declines to 16% with increasing age.

7 Ordinary unemployment benefit provides only 30% of the last wage for no longer than six months, while mobility benefits are paid for one year (two years for older workers) and amount to 80% of the last wage, with a ceiling equivalent to EUR 750. During the 1980s, early retirement measures contributed to limiting the increase of explicit unemployment.

8 Nationwide experiments are currently under way on a minimum income scheme and a fund for individuals who cannot provide for themselves, which should initially reduce the improper use of other instruments and then substitute them.

9 Between 1980 and 1996, the share of active workers declined by 25.8% among the unions' base to 51%, while the share of retired workers increased from 18% to 48% (Cesos, 1998).

work. Unions also promote self-help associations, assistance centres and consulting services in which experienced retired workers provide professional assistance and training to younger workers, newly established enterprises and social enterprises.

The Labour Ministry and the Ministry of Social Affairs are addressing specific measures to older people, with special emphasis on the need to improve the quality of the social and human relations and networks of older people so as to reduce their isolation and activate their resources for society at large, to develop integrated services for persons and families, to implement permanent training and to foster a flexible relationship between working time and other life times (Ministry of Social Affairs, 1999). The Ministry of Social Affairs has proposed legislation to support the social activity of older workers through the recognition of voluntary and civil work by local authorities, which could, in exchange, offer reduced rates for recreational and cultural services for older people. The government is also considering the introduction of special fiscal treatment for retired older people involved in voluntary activities. At the local level, special attention is given to the need to integrate social and health services, to promote the supply of cultural, recreational and leisure services specifically aimed at older people, and to encourage socially useful activities employing older people.

In the near future, the increasing ageing of the Italian population and the lower retirement income due to the pension reform will demand greater attention to the development of specific schemes to support late retirement and private pension schemes. Such policies should consider not only the supply side (with continuous training or measures aimed at improving working conditions, etc.), but also the demand side (with attention to firms' needs and specific consultancy services and incentives) in order to increase the "employability" of older workers and change existing attitudes.

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# Luxembourg

## Summary

The first section of this report provides an overview of the demographic situation on the Luxembourg labour market. The forecasts for 2010 predict an activity rate of 63% for 50–54 year-olds, 35% for 55–59 year-olds and 10% for 60–64 year-olds.

The second section describes the legal and institutional framework for Luxembourg measures concerning labour market exit. Of the beneficiaries of the various types of pension, 28.8% are 55 to 64 years old. The third section gives the perspective from the enterprise side. In 1998, 59 firms made use of measures on early retirement.

The reintegration of older workers into the labour market is described in the final section. During 1997, about 150 persons made use of support measures for re-entering the labour market.

## Introduction

The age structure of the resident population of Luxembourg aged 15 years and over (Table 1) shows that 20.5% belong to the 50–64 age group. Of the employed population, 14.7% are older workers. Of the population aged 50 to 64, 37% are employed, while 37.6% are members of the labour force (either employed or registered as unemployed).

Luxembourg's statistics office has calculated four different population forecasts for the year 2010 based on three variables. All four forecasts are based on a fertility rate of 1.72 in 1994 and 1.75 in 2010, male mortality of 72.4 years in 1991 and 75.2 years in 2010, and female mortality of 79.1 years in 1991 and 81.0 years in 2010. The migration rates used for the first forecast are 4,000 immigrants in the year 1995 and zero immigrants in the year 2010; the second model is based on 4,000 in 1995 and 1,000 in 2010; the third calculation uses 4,000 in 1995 and 2,500 in 2010; and the fourth forecast is

based on 4,000 immigrants annually throughout the whole period.

In 2010, Luxembourg can expect between 10,000 and 30,000 more residents active on the labour market.

In 1995, the active population included 14.6% older people in the 50–64 age category. Based on Forecast 1, in 2010 this age group will have increased to 19% of the active resident population; the figure comes to 18.6% in Forecast 2, 18% in Forecast 3 and 17.5% in Forecast 4, with the latter taking the highest immigration to Luxembourg as its hypothesis.

## Changes in the policy framework: recent trends

Exit from the labour market on the part of older workers is regulated by two main laws:

1. the law on old-age, invalidity and survivor pensions of July 1987 (*Loi du 27 juillet 1987 concernant l'assurance pension en cas de vieillesse*)

**Table 1: Total resident population by age group and economic activity, 1 March 1991**

Age groups	Total	Employed	Unemployed	Retired	Housekeeping	Student	Other
15–19 years	21,443	5,555	400		205	15,175	108
20–24 years	28,059	19,881	658		1,511	5,712	297
25–29 years	33,296	26,521	587		4,698	1,128	362
30–34 years	33,121	25,099	496		6,936	177	413
35–39 years	30,365	22,914	393		6,554	30	474
40–44 years	28,149	20,896	313		6,298	3	639
45–49 years	23,653	16,430	234		6,041		948
50–54 years	22,486	13,298	129	2,064	6,806		189
55–59 years	21,207	7,811	67	5,836	7,361		132
60–64 years	21,391	2,987	19	10,369	7,869		147
65 years and older	50,298	638	1	27,089	22,084		486
Unknown	4,748	1,898	20	435	858	1,257	280
All age groups	318,216	163,928	3,317	45,793	77,221	23,482	4,475

Note: Age group 0–14 years: N = 66,418; total population, including 0–14 year-olds: N = 384,634

Source: STATEC (1999, p. B12).



lesse, d'invalidité et de survie); and

2. the Early Retirement Act of December 1990 (*Loi du 24 décembre 1990 sur la préretraite*). This second measure is described below ("Developments at the company level"), because it is addressed to enterprises.

The first legislation covers:

- old-age pensions starting at age 65;
- the "early old-age pension", available for 57 year-old employees and ending at 65 years; and
- the invalidity pension, available in the event of long-term illness, disability or persons being unable to carry out an occupation.

Table 2 shows the breakdown of the number of persons benefiting from the different measures as reported by the General Inspectorate of Social Security (IGSS). In December 1997, 72,157 persons were receiving invalidity, old-age or early old-age benefits.

Of special interest are the age categories 55–59 and 60–64 years (Table 3). In December 1997, 20,785 recipients in this age group were registered for the different pension. They represent 28.8% of the individuals drawing invalidity and early old-age pensions.

The average starting age for pensions fell from 57 years in 1990 to 55 years in 1996.

On 12 February 1999, the adoption of the 1998 EU Employment Guidelines in Luxembourg (see *Mémorial, Journal Officiel du Grand-Duché de Luxembourg*, 1999, p. 65) simplified the schemes and added a new measure, which allows employees aged 50 years or older to switch from full-time to part-time employment.

The simplification allows workers aged 57 years or older to reduce their working time by between 40% and 60% for three years. If a registered unemployed person is recruited for the vacant position, the Employment Fund pays the social security contributions for up to one third of the

**Table 2: Recipients of various pensions in December of each year, 1980–1997**

Year	Invalidity pension		Old-age pension and early old-age pension		Total individual pensions	
	Men	Women	Men	Women	Men	Women
1980	8,754	3,001	20,800	10,740	29,554	13,741
1985	10,138	3,584	20,788	10,753	30,926	14,337
1990	12,010	4,470	25,766	11,784	37,776	16,254
1991	12,074	4,634	27,369	12,132	39,443	16,766
1992	12,411	5,036	29,064	12,504	41,475	17,540
1993	12,926	5,332	30,972	12,863	43,898	18,195
1994	13,503	5,652	32,773	13,112	46,276	19,764
1995	13,901	6,088	34,253	13,430	48,154	19,518
1996	14,471	6,470	35,514	13,758	49,985	20,228
1997	14,737	6,734	36,732	13,954	51,469	20,688

Source: IGSS (1998, p. 185).

**Table 3: Types of pension by age group of the recipient in December 1997**

Age groups	Invalidity				Old-age and early old-age			
	Men		Women		Men		Women	
	N	%	N	%	N	%	N	%
55–59 years	4,462	30.28	1,962	29.14	1,335	3.63	84	0.6
60–64 years	5,170	35.08	2,328	34.57	4,995	13.6	449	3.22
Total	14,737	100	6,734	100	36,732	100	13,954	100
Mean age*	55.43		54.97		70.19		74	

\* Including persons under 55 and over 64 years of age.

Source: IGSS (1998, p. 192).

**Table 4: Mean age of recipient on entering retirement by type of pensions, 1985–1996**

Invalidity			Old-age and early old-age			Invalidity, old-age and early old-age		
Year	Men	Women	Year	Men	Women	Year	Men	Women
1985	52.1	53.4	1985	62.6	64.2	1985	55.5	56.7
1990	52.6	52.9	1990	61.9	64.4	1990	57.1	57.2
1993	51.5	52	1993	60.4	63.5	1993	56.9	55.1
1994	50.8	51.4	1994	61.3	63.6	1994	56.1	54.8
1995	50.4	51.4	1995	61.5	63.8	1995	55.8	55
1996	50.2	51.4	1996	61.2	63.5	1996	55.7	55.2

Source: IGSS (1998, p. 198).

wage costs. The social contributions are paid by the Employment Fund if workers aged 50 years or older change to part-time work and the vacant part of the job is given to a registered unemployed person. Both measures have the aim of keeping the older worker in the labour market, adapting working conditions to individual needs and opening up new opportunities for the unemployed.

## Developments at the level of companies

The 1990 Early Retirement Act describes the measures for enterprises, which can be applied to employees aged 57 or older (52 in the mining sector):

- early retirement by "solidarity", which allows the enterprise to reform the age structure of the workforce by hiring young employees;

- early retirement for shift workers and night workers;
- early retirement by adjustment enables the employer to restructure the workforce in his enterprise while at the same time protecting workers against unemployment; and
- progressive early retirement allows employees to reduce their working time by between 40% and 60%.

On 31 December 1998, 59 enterprises participated in the application of the different measures under the Early Retirement Act (Table 5). This is one enterprise more than the previous year.

- 141 white-collar and 55 blue-collar workers were involved in the solidarity scheme.
- The shift-work and night-shift part of the law was applied to 55 white-collar and 87 blue-collar workers.
- 432 white-collar and 546 blue-collar workers participated in the early retirement by adjustment scheme.
- 4 white-collar workers entered early retirement on the basis of progressive reduction of working time.

## Perspectives of older workers

Measures for reintegrating older workers and long-term unemployed are based on the Law of July 1993.

For people aged 50 years or older who have been unemployed for at least one month, the Employment Fund takes over the social contributions of the employee and the employer for the new job. These contributions are paid for three years for workers aged 40 years or older who have been unemployed for 12 months at a minimum. And the social contributions are financed by the Employment Fund for two years for people aged 30 years or older who have been unemployed for 12 months.

Since 1993, about 350 persons have found a new job with the help

**Table 5: Use of the early retirement regulations, 1990–1998**

	Solidarity	Shift work	Adjustment	Progressive
31 December 1990: number of enterprises = 63				
White-collar	14	53	732	n.a.
Blue-collar	31	146	1447	n.a.
31 December 1991: number of enterprises = 41				
White-collar	13	18	442	n.a.
Blue-collar	8	75	915	n.a.
31 December 1992: number of enterprises = 40				
White-collar	17	19	446	n.a.
Blue-collar	14	79	878	n.a.
31 December 1993: number of enterprises = 42				
White-collar	15	23	482	n.a.
Blue-collar	12	95	859	n.a.
31 December 1994: number of enterprises = 50				
White-collar	39	28	486	n.a.
Blue-collar	20	88	766	n.a.
31 December 1995: number of enterprises = 50				
White-collar	60	35	531	n.a.
Blue-collar	39	81	774	n.a.
31 December 1996: number of enterprises = 57				
White-collar	92	36	516	n.a.
Blue-collar	58	76	724	n.a.
31 December 1997: number of enterprises = 58				
White-collar	124	39	481	n.a.
Blue-collar	62	80	631	n.a.
31 December 1998: number of enterprises = 59				
White-collar	141	55	432	4
Blue-collar	55	87	546	0
Sources: Ministère du Travail et de l'Emploi (1998, 1999).				

**Table 6: Mean monthly pensions in December of each year (not including early old-age pensions) (in LFR)**

Year	Invalidity pension		Old-age	
	Men	Women	Men	Women
1994	43,119	29,059	49,477	23,180
1995	45,907	31,162	51,744	24,756
1996	46,274	31,660	51,231	25,016
1997	49,231	33,651	53,280	26,660
Source: IGSS (1998, p. 203).				

of this law. In 1997, around 150 persons participated in the scheme. At the end of December 1997,

- 274 persons aged 30–40 were registered as unemployed for longer than 12 months;
- 364 persons aged 41–50 were unemployed for at least one year; and
- 480 persons aged 50 or older were registered for one month.

These 1,118 individuals represent 17% of the registered unemployed in Luxembourg (cf. Ministère du Travail et de l'Emploi, 1999, p. 20).

## Incomes from pensions

The invalidity benefits for male recipients increased by 14.1% between 1994 and 1997; old-age pensions for men increased by 7.6% during the same period. Women received

15.8% more invalidity benefits in 1997 than in 1994. Their income from old-age pensions was 15% higher in 1997 than in 1994.

In Luxembourg, older employees have the tendency to leave the labour market by using the possibilities of the Early Retirement Act or the progressive pensions scheme (*Plan d'action national pour l'emploi*, 1999).

Uwe Warner

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# Netherlands

## Introduction

Compared to most other EU countries, the Netherlands experienced a very strong decline in the participation of older workers in the labour market during the 1970s and 1980s. Both high youth unemployment and difficulties experienced by older workers in keeping up with rapid technological developments contributed to a culture in which early retirement became highly accepted and very common. Employers and employees alike made ample use of the possibilities offered by early retirement, unemployment and disability schemes for an early exit from the labour market. However, this trend now seems to be reversing.

Male workers were those with the highest rates of labour market exit. In 1970, 81% of the men aged 55–65 years were working. Since then this

percentage has declined considerably, reaching its lowest level in 1994: only 38% of the men aged 55–64 had a job of at least 12 hours per week that year. The labour market participation rate of women was traditionally low in the Netherlands, and the participation of older women remained at a steady, low level during those decades.

Table 1 provides a detailed overview of the labour market participation of older people in 1997. It shows that participation is still strongly decreasing with age and that gender plays an important role in participation rates.

Since 1994, the labour market participation rate of men aged 55 or over has been increasing again. The participation of women in this age group has also been increasing (CBS, 1997, 1998; SZW, 1998).

It is expected that overall labour market participation will increase, in spite of the population ageing effects. Higher participation rates for women, combined with rising education levels, will compensate for these effects. The education level is important here, since low-skilled older workers are more likely to leave the labour market by means of the unemployment and disability benefit schemes, the two main exit routes. In addition, they do so at a younger age. The fact that women have to a large extent caught up with men in the labour market will in future raise the labour market participation of the older age groups. Policy changes, in particular in the early retirement pension schemes, may provide further impulses for this trend.

Three problems in particular have prompted the development of policies with regard to age and work:

**Table 1: Labour market participation, 1997 (in %)**

	Participation rate <sup>a</sup>	Employment rate <sup>b</sup>	Unemployment rate <sup>c</sup>
<i>Men and women</i>			
35–49 years	77	72	6
50–64 years	44	42	5
of which:			
50–54 years	66	62	6
55–59 years	44	42	4
60–64 years	12	11	3
<i>Men</i>			
35–49 years	94	90	4
50–64 years	61	59	3
of which:			
50–54 years	87	84	4
55–59 years	62	60	3
60–64 years	19	19	2
<i>Women</i>			
35–49 years	59	53	11
50–64 years	27	25	8
of which:			
50–54 years	43	40	9
55–59 years	25	24	5
60–64 years	5	5	6

a Labour force as a percentage of the total population in that age group.

b Working population as a percentage of the total population in that age group.

c Unemployed labour force as a percentage of the total labour force in that age group.

Source: SCP (1999) (calculations by the Social and Cultural Planning Bureau [SCP] based on data from the 1997 Statistics Netherlands [CBS] Labour Force Survey).

- the upward pressure on benefit and pension payments and contributions;
- labour shortages caused by the outflow of workers into social security schemes;
- an ageing workforce: outdated qualifications and skills as well as decreasing flexibility and productivity are problems that can be envisaged in this respect.

In the Netherlands, the social partners play a prominent role in the development and implementation of these policies. To a large degree, these are developed in a tripartite consultation process at the central level and further elaborated in sectoral collective agreements.

## Changes in the policy framework: recent trends

The current Dutch government coalition has promised that the labour market participation of older people will become a higher priority in Dutch labour market policy. It has

called for a change of mentality in this respect both from employers (automatic lay-off of older workers) and from employees (gradual phasing out of early retirement schemes and a longer working life).

The government prefers an indirect approach (creating framework conditions), in which action is left to the social partners, individual companies and persons. So far, this approach has been quite successful in the area of old-age (supplementary) pensions. Progress in the field of human resource management, including training, has, however, been very limited (see the section on developments at the company and sectoral levels below).

## Statutory retirement age

The government considered increasing the age at which the public old-age pension can be claimed (currently 65) in combination with a higher level of benefits. This proposal was, however, rejected by the Social and Economic Council (SER)<sup>1</sup>. The cabi-

net then announced that it would examine the possibilities for later voluntary take-up (Sociale Nota, 1998).

## Pathways to early exit

### Early retirement

The Dutch government encourages the social partners to substitute flexible old-age pensions for early retirement schemes in collective agreements (see below). Withdrawing fiscal incentives for early retirement schemes is under consideration.

### Unemployment

Older unemployed (57.5 years and older) are exempted from the obligation to actively look for work. The government would like to change this, but it has had to postpone its plans in view of the heavy resistance encountered. A phased introduction of an “application duty” (duty to look for work) will be considered once other measures have substantially increased the chances of older unemployed in finding a job.

In the meantime, since 1 May 1999, older unemployed in receipt of unemployment benefits have again been required to register at the public employment service. They also have the obligation to accept a suitable job if such an offer is made to them.

Older unemployed who accept a job at lower wages are guaranteed their level of benefits should they become unemployed again. Since 1 June 1999, the unemployed have been granted more time to find such a job (one year instead of six months), and the guarantee applies for a longer period (36 instead of 30 months).

Further initiatives under consideration are the introduction of financial disincentives (differentiation of contributions according to “take-up”) in the unemployment benefit scheme (WW) for employers who are too quick to lay off employees and control mechanisms on dismissals.

1 The SER is a prestigious and influential consultative body of employers', employees' and “Crown” representatives. It has published, amongst others, an extensive advice on old-age provisions in 1997.

## Disability

A differentiation of contributions was already introduced for disability benefits (WAO). In addition, an extensive prevention and reintegration policy for recipients of disability benefits exists in the Netherlands. More than half of WAO recipients are aged between 50 and 64. There are very few specific provisions for older beneficiaries. In fact, older disability benefit recipients are less likely to participate in reintegration activities, either because they have been classified as "unplaceable" or because they were exempted from the obligation to look for work (CTSV, 1999).

## Maintaining older workers at work

On 9 July 1999, the cabinet agreed to a proposal for a (new) law on age discrimination at work. The new law will prohibit age discrimination in recruitment and selection, promotion, work-related training and integration into work. Employers can only claim exemption if the company or employment is endangered.

The government is considering making working life easier towards its conclusion as one means to keep older workers at work, for example through shorter working weeks or a change of function or job. This would require that barriers in career pension and public social security schemes be removed, for example by introducing so-called "incision" provisions (level of pension to be calculated proportionally over last wage before and after the "incision" in a worker's career). This applies to so-called "end-wage" systems, which are still used by many of the career pension schemes. As of 1 June 1999, older workers (55+) whose wages fall – for instance, because they accept a lower function, reduce their number of working hours or are assigned different tasks – retain entitlements to unemployment and disability benefits based on their former wage level.

With regard to training, since 1 January 1998, companies can claim a tax

deduction for the training of employees. Additional provisions also exist for SMEs and for older (>40) employees under this regulation. The National "Lifelong Learning" Programme (*Nationaal programma "Een levenlang leren"*) was also launched in 1998, which aims to increase the employability of employees. This programme, however, does not specifically address older workers.

## Developments at the level of companies and sectors

In the Netherlands, older workers have been a concern for the social partners for several years already. In the Labour Foundation (*Stichting van de Arbeid*), the consultation body for the social partners and the place where framework collective agreements are reached, the issue of "work and older people" has been on the agenda since 1993. Central aims were increasing the labour market participation of older workers and better use by companies of the valuable knowledge and skills acquired by older workers through many years of work. Continuing training and work adapted to age were also considered to be part of a "policy for older workers", but concrete actions are relatively slow to develop. An exception to this is a number of agreements reached at company level in larger companies.

In 1997, the social partners concluded an agreement in the Labour Foundation on "policies for older people" (*ouderenbeleid*). The agreement stipulated that the collective bargaining partners at sector and company level would (re-)examine the early retirement schemes in order to see how they could stimulate labour market participation of those 55 or older. The agreement also called for "age-conscious" personnel (HR) management and recommended activities with regard, for example, to recruitment and selection, accessibility of training, career guidance, adaptation of tasks and/or working hours, and suitable working conditions.

A policy for older workers is also one of the items on "Agenda 2002", the 1997 framework agreement between the social partners that set the agenda for negotiations in the coming years.

## Restructuring the workforce

As of 1 January 1994, the so-called "older guideline", which made it possible to lay off older workers first in the case of collective dismissals, was withdrawn. According to the latest report from the Labour Inspectorate, the number of reorganisations or mergers entailing mass reductions in the number of employees has decreased considerably. Only in 3% of the cases (as opposed to 20% in 1996) were older workers the "first to go" (*Arbeidsinspectie*, 1999).

## Early retirement

On 9 December 1997, the cabinet concluded a covenant with the social partners on (supplementary, i.e. career) pensions. The aims of the covenant were to modernise the pension schemes and to come to a reduction of employer contributions and thus labour costs. The government has agreed not to take legal measures until 2001, but in the coming years it will monitor the progress made by the social partners in this area. The covenant builds on the agreement the social partners reached earlier that year in the Labour Foundation (the "pension agreement").

Since then, early retirement schemes are increasingly being replaced with pre-pension schemes. In a pre-pension scheme, the costs are no longer paid by current contributors, and they include incentives to continue working because every year worked will yield a higher pension level.

According to 1998 data from the Labour Inspectorate, in 54 of the 129 collective agreements analysed, provisions on retirement and pensions were included. Usually, the provisions concern a shift in the age at which early retirement can be taken (e.g. from 60 to 62). Another com-

mon provision is a reduction in the amount of the pension (on average from 78% to approximately 71% of the gross salary). Workers who continue working longer generally receive a higher pension. Often, a sort of savings plan for an additional pension is included for people retiring earlier. In 17 agreements, the early retirement scheme had actually been replaced by a pre-pension (i.e. flexible pension) scheme. The collective agreements analysed cover some 70% of the employees. Since provisions for changing early retirement are found more often in the larger agreements, these will affect some 60% of the employees. In most other collective agreements, stipulations are included that concern a further study or discussion of these schemes (SZW-Arbeidsinspectie, Spring report 1998; SCP, 1999).

This year's Spring report from the Inspectorate found five collective agreements that included provisions allowing workers to continue working after the age of 65.

### Human resource management

In 1997, the Labour Foundation published recommendations for an age-conscious human resource policy. In its latest study of collective agreements, the Labour Inspectorate found some improvements in this respect in comparison with the situation in 1996, but it concluded that in practice too little is being done. It is mainly in larger companies that measures are being taken.

Some of the findings are (Arbeidsinspectie, 1999):

- Of the collective agreements, 19% include career counselling provisions.
- In 7% of the collective agreements, provisions for career adjustments were found.
- According to the business survey also carried out, in one third of the companies career interviews are held with employees. In 11% of these companies, these interviews cease when workers reach the age of 50.
- In 63% of the companies, irregular working hours exist. In 10% of these companies, workers aged 55 or over are not obliged to work such hours.
- Also in 63% of the companies, "strenuous" (physical or mental) work is carried out. In 24% of these companies, older workers can ask for an adaptation of their function if they feel this is necessary.
- The number of companies offering training to their employees has increased from 53% to 66% since 1996. Participation (still) decreases with age, but the participation of older workers per se has increased.

### Perspectives of older workers

The policies outlined above aim to improve the perspectives of older workers during their working life. This means that their chances of becoming or remaining unemployed should decrease, whereas their opportunities to update their qualifications and skills should increase. On the other hand, the income prospects of older workers will probably decline.

### Employment risks

Older people are currently over-represented amongst recipients of unemployment benefits (WW). This is partly due to the fact that they are in general entitled to a longer period of benefits, because this period depends on the number of years worked. The entry rate for the over-40s is similar

to that of younger people. The main problem, however, is that older people are less likely to leave the benefits scheme, that is, find work again. Table 2 illustrates how people's chances of leaving the unemployment benefits scheme decrease with age. For unemployment assistance (ABW), the prospects for exiting are even lower.

### Access to training

According to a study carried out in 1997 by Wim Groot and Henriëtte Maassen van de Brink, employees aged 45 years or younger participated twice as much in training courses as workers aged between 45 and 60 years of age. According to the researchers, this was the result of differential treatment by superiors and entailed a reduction in their relative productivity.

An earlier longitudinal panel study carried out by the Organisation for Strategic Labour Market Research (OSA) came to similar conclusions. Participation in job-related training was considerably lower for the 55-and-over age group (see Table 3).

### Income

The typical pension scheme in the Netherlands grants three-quarters of previous income (up to around twice average earnings, at which point compensation rates drop to half of net earned incomes). Typically, part-time earnings could not be combined with a reduced pension payment. Exiting the labour force before the normal retirement age does not reduce old-age pension entitlements

**Table 2: Chances of entering the unemployment benefits (WW) scheme and of returning to work for people in receipt of unemployment benefits (WW) by age group, 1996 (in %)**

	Entry	Exit (work)
< 25 years	14.0	44.9
25-35 years	9.6	41.3
35-45 years	6.8	34.1
45-55 years	5.6	26.2
55-65 years	6.8	6.4

Source: SZW (1998).

**Table 3: Number of job-related courses by age, 1994–1996 (n = 2,061)**

Age group	Average number of job-related courses
< 25 years	0.44
25–34 years	0.79
35–44 years	0.46
45–54 years	0.58
> 55 years	0.25
Total	0.63

Source: OSA (1998).

(SZW, 1997). This situation is changing rapidly into a situation where both the retirement age and the level of the (supplementary) old-age pension increasingly depend on individual choices and arrangements made by workers.

## Further policy developments

Future policy developments in the Netherlands are awaiting the advice the government has requested of the Social and Economic Council (SER). This advice will cover five areas (SZW, 1999):

1. How to change the mentality of employers and employees: what measures are needed to change their attitudes towards a longer labour market participation of older workers?
2. Making it more attractive for older people to continue working: what combination of measures is needed, including, for example, age-conscious human resource management, flexible terms of em-

ployment, working conditions and avoiding negative wage costs and income effects in the case of a change in task or activities?

3. Substituting pre-pension schemes for early retirement schemes.
4. Discouraging dismissal of older workers.
5. Reintegration (flow out of unemployment) of older workers: using sectoral labour market policies to this end, specific measures for ethnic minority members in this age group, introducing fiscal incentives, reviewing provisions in regulations that might discourage a return to work (exemption for pension contributions in the case of disability, old-age contribution system for unemployed workers), and reintroduction of the obligation to actively look for work for unemployed aged 57.5 years or older.

The advice is expected to be published later this year.

Marjolein Peters

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# Austria

## Introduction

In times of full employment, in the 1950s and 1960s, older workers were offered substantial incentives to remain in the labour force. In the wake of rising unemployment since the mid-1970s and the rising supply of younger labour in the 1980s, by contrast, the over-50s increasingly found themselves facing, similar to the situation of younger workers, a high risk of losing their job irrespective of their qualifications. The reasons for the deterioration in the situation of older workers in terms of both the risk of becoming unemployed and the duration of unemployment are both cyclical and structural in nature. Sectoral-structural employment change takes place partly by way of the natural shedding of older workers, but partly by artificially intensifying this process as well. The end of a number of "old industries" also marked the end of stable jobs for many older workers with long tenure; at the same time, the sectorally and firm-specific qualifications characteristic of such industries declined in value.

Since the start of the 1980s, the tight labour market led to a rising number of entries into early retirement, with respect to the total number of retirements, and an increase in the number of instruments providing for the transition into early retirement – an example being the (since abolished) special support (*Sonderunterstützung*) – resulting in a marked reduction in the supply of labour. In 1996, for example, the supply of labour would have been 4.6% higher in the absence of such measures. "If this increase in supply had been directly reflected in a corresponding increase in unemployment, the administrative unemployment rate (i.e. on national definitions) would have been 9.8% rather than 6.3%" (Lutz, 1997).

**Table 1: Participation rates of selected age groups (in %)**

	Men			Women		
	50–54 years	55–59 years	60–64 years	50–54 years	55–59 years	60–64 years
1987	87.8	65.5	15.5	52.7	25.4	6.7
1990	91.2	64.2	14.5	58.1	24.9	5.6
1993	87.4	63.0	11.8	57.8	24.3	5.7
1996	81.9	61.5	12.2	57.3	22.1	5.6
1998	82.0	62.1	13.7	65.6	23.3	5.7

Source: WIFO database.

Between the 1960s and 1987, the participation rate of those aged between 50 and 60 fell from 58% to 42%. As a result, this age bracket declined as a proportion of total dependent employment from 19% to 14%. Among women aged between 55 and 60, the participation rate fell by 2.2 percentage points between 1993 and 1996 to 22.1%; among men of the same age, the figure also fell by 2.2 percentage points to 61.5%. Since 1997, participation rates in the age group prior to the statutory retirement age (women at 60, men at 65) have begun to rise once more. This can be interpreted as an outcome of the measures implemented to raise the effective retirement age.

Once the potential for early retirement to ease supply-side pressure on the labour market had been exhausted, unemployment among older persons in Austria rose markedly. In spite of the fact that participation

rates among older workers are lower in Austria than the OECD average<sup>1</sup>, their unemployment rate is higher than among younger cohorts. The increasing duration of unemployment spells among older persons, and the fact that they represent a more than proportionate share of the long-term unemployed, both point to the difficulties faced by older workers in regaining employment after losing their job.

Prognoses suggest that occupational behaviour in Austria will gradually approach EU averages. In particular, the participation rates of older workers and of middle-aged women will rise, primarily because – as long-term prognoses (to 2050) of labour supply in Austria show – labour supply is expected to age rapidly as the baby-boomer generation, that is,

<sup>1</sup> Alongside Italy, Austria has the lowest participation rates among older persons (Ziniel, 1997).

**Table 2: Demographic scenarios for Austria (in 1,000s)**

Year	Total	15–59 years	Older than 60	% share of over 60s
1998	8,072	5,096	1,601	19.8
2000	8,083	5,059	1,677	20.7
2010	8,048	4,973	1,947	24.2
2020	8,075	4,726	2,273	28.1
2030	8,067	4,193	2,800	34.7
2040	7,900	4,029	2,881	36.5
2050	7,605	3,846	2,812	37.0

Source: ÖSTAT (1998).

those born in the late 1950s and early 1960s, grows older and as the small cohorts born in the 1970s enter the labour market (Höglinger et al., 1997).

## Current trends and labour market policy strategies

### Effective retirement age

The statutory retirement age is 60 for women and 65 for men. In the wake of the sharp rise in unemployment at the end of the 1980s and start of the 1990s, early retirements increased as a proportion of all entries into retirement. In 1997 the effective retirement age, leading to receipt of an old-age pension, was 58.2 years for women and 61.0 years for men; including disability pensions, the figures were 56.8 and 58.4 years, respectively (Hauptverband der Österreichischen Sozialversicherungsträger, 1999).

In order to counter the anticipated financial problems resulting from demographic factors and increasing life expectancy, along with the trend towards earlier retirement, policy has recently been geared to raising the effective retirement age<sup>2</sup>. Continuing the reforms enacted in 1993 and 1996, a pension reform was adopted in 1997; further adjustments have been introduced under the "Pact for Older Persons" (*Pakt für Ältere*) concluded in 1999.

Starting in the year 2019, the statutory retirement age for men and women is to be gradually brought into line. In order to restrain the growth in the burden of contributions for those in work, and in order to guarantee the long-term financial viability of the Austrian pension insurance system, the recent changes in pension laws have, in particular, extended the contribution period used to calculate pension entitlements; in the case of civil servants, contribution periods were introduced as the basis for calculation rather than "the last salary". Between 2003 and 2020, the minimum insurance period will be gradually extended from 180 months to 216 months. In addition,

the conditions for access to early retirement schemes have been tightened. In the longer term – the full effects of the pension reform will not be felt until 2040 – these measures are expected to bring about savings in the pension volume of around 10–15%.

### Early exit avenues

There are a number of ways to retire before reaching the statutory retirement age, each subject to certain conditions. Women aged over 55 and men aged over 60 who have worked and paid pension insurance contributions for a total of 35 years have the option of claiming the "early old-age pension on the grounds of long contribution period". Those aged over 55/60 who have been unemployed for more than one year can, subject to a number of other special conditions, claim the "early old-age pension on the grounds of unemployment". Those aged over 55 (women) or 57 (men) whose health is such that the income they can earn would decline by at least half are entitled to claim the "early old-age pension on the grounds of reduced work capacity or occupational disability". Finally, the part-time pension (*Gleitpension*) enables those with long contribution periods and aged over 55/60 to claim a certain percentage of their pension entitlement while reducing their workload by switching to part-time employment.

Until the end of the 1980s, the impact of structural change on the labour market was primarily countered by measures that opened up avenues into early retirement for older workers. The special support (*Sonderunterstützung*), since abolished, was an important instrument that was used to provide financial support, up to the earliest possible pension age, to workers, particularly older workers, who were affected by structural change, had lost their jobs and had no chance of re-employment; in doing so, it eased supply-side pressure on the labour market. Labour market factors exerted a crucial influence on the number of people entering early retirement, be it for health reasons or due to unemployment. And the restrictions relating to the recognition of disability pensions (work incapacity) also tended to correspond to the prevailing labour market situation (Finder, 1997).

Pension entry data show that, since the mid-1980s, the number of new pensioners receiving the standard old-age pension has declined as a share of the total of new entries. At the same time, there has been a shift away from the disability pension in favour of the early retirement pension on the grounds of reduced work

<sup>2</sup> In 1980 the "pension dependency rate" – number of pensions per 1,000 people paying pension insurance contributions – was 522; in 1998 the figure was 619 (Hauptverband der Österreichischen Sozialversicherungsträger, 1999).

**Table 3: Structure of new pension entries**

	1985		1990		1998	
	Absolute	%	Absolute	%	Absolute	%
Normal old-age pension	21,226	24.7	17,600	24.0	14,759	19.9
Early old-age pension on the grounds of						
– long contribution period	26,397	30.7	23,933	32.6	27,414	37.0
– unemployment	3,217	3.8	4,143	5.6	3,566	4.8
– reduced work capacity*	–*	–*	–*	–*	12,547	16.9
Partial pension ( <i>Gleitpension</i> *)	–*	–*	–*	–*	324	0.4
Disability pension	35,019	40.8	27,763	37.8	15,514	21.0
Total	85,859	100.0	73,439	100.0	74,124	100.0

\* Introduced in 1993.

Source: Umbrella organisation of the social insurance funds.

capacity, introduced in 1993. The partial pension is claimed by just 0.4% of those entering retirement.

Demographic factors are increasingly leading to financial difficulties for the pension system. In the first half of the 1990s, this led to the abolition of certain special measures and a tightening of the conditions of entitlement to early old-age pensions. The minimum age at which men could claim a pension on the grounds of reduced work capacity, for instance, was raised to 57. Those entering retirement prior to attaining the statutory retirement age now face substantial deductions from their pension entitlement level.

### **Policies and measures to raise participation rates and to re-integrate older workers**

Following negotiations lasting more than six months between the social partners on the precise details, at the start of 1999 the "Pact for Older Persons" (*Pakt für Ältere*) was approved by parliament. A series of measures that are to come into force on 1 January 2000 aim to promote the retention of older workers in employment and support the re-employment of the older unemployed. Alongside modifications to existing measures, the Pact for Older Persons contains a new model for a part-time pension (*Altersteilzeit* – see below). However, a number of experts have criticised these efforts as being inadequate in view of the task of ensuring the long-term financial stability of the pension system.

As a rule, labour market policy measures are targeted at all the unemployed; they are not instruments specially tailored to the needs of older workers. Moreover, the older unemployed are not mentioned as a priority target group in the 1999 labour market policy targets of the Austrian public employment service (AMS). However, for persons aged over 45 access to employment-promotion measures (enterprise work familiarisation allowance, socio-economic enterprise support) is conditional on an unem-

ployment period of just six months, rather than 12 months as for other age groups. This is because older persons are considered to be a group particularly likely to suffer from long-term unemployment. Even so, evaluations show that the proportion of older persons in total participation in, for instance, reintegration measures is significantly lower than their share of the unemployed population (Riesenfelder et al., 1999).

In the past, the so-called labour foundations (*Arbeitsstiftungen*) have been an effective instrument for dealing with the consequences of structural industrial change. In the wake of the restructuring of state-owned industries in the 1980s, tens of thousands of jobs were lost in the steel industry. In 1987 the Voest Steel Foundation was set up, a labour market policy experiment that aimed to offer the unemployed industrial workers the opportunity to train in a different area and thus a chance of finding alternative employment. In this first such reintegration measure as many as 13% of participants were aged over 45, more or less in line with this age group's share of the overall working population.

The foundations have been relatively successful – in 1995 around 60% of participants were successfully integrated into the labour market – although the intensive measures offered within the framework of the foundations have not really worked yet in the case of older persons. In particular, older participants in foundation-based schemes, constituting around 17% of all participants, must expect serious income losses on re-entering working life.

In future, the older unemployed are to be incorporated into employment projects to a greater extent than previously, especially in the growing area of non-profit agency work. In the state of Upper Austria, the public employment service and the state government support the occupational reintegration of the older unemployed (women aged over 50, men over 55) by promoting a non-profit leasing company that recruits

the older unemployed as agency workers and leases them out to private and public sector employers at particularly attractive conditions. An evaluation showed evidence of highly satisfactory successes in labour market integration.

From the year 2000, unemployed persons entitled to claim an early old-age pension have a legal entitlement to an employment relationship in an employment project at collectively agreed rates of pay. In addition, job coaching for unemployed persons over the age of 50 is to be intensified, in order to prevent them from sliding into long-term unemployment.

If older workers (over 45) accept a job paying less than their previous work, the income basis used to calculate future benefits from the unemployment insurance fund remains unaffected by the lower earned income level. This is because experience has shown that the prospect of reduced entitlements to unemployment benefit, by way of a lower earned-income calculation base, reduces the willingness to accept lower-paid jobs, even where they are in line with the person's qualifications.

The bonus/malus system introduced into the unemployment insurance system in 1996 is currently the only measure explicitly geared to older persons. It aims to reward employers who recruit older workers and to "punish" those making older workers redundant. The bonus consists of a reduction in the employer's unemployment insurance contributions by 50% (in the case of recruitments of workers aged over 50) and 100% (for workers aged over 55). Employers making redundant employees aged over 50 who have worked in the enterprise for more than ten years must make a compensation payment ("malus") to the unemployment insurance fund, the level of which depends on the level of the income base used to calculate the benefit level and the difference between the current age of the person affected and his/her pension age. Experience has shown that since the in-

roduction of the measure the number of insured employees for whom reduced contributions or no contributions were paid has doubled; there has been no trend increase in the number of employers paying penalties, on the other hand.

### Support for partial retirement

A new measure introduced under the Pact for Older Persons is part-time retirement (*Altersteilzeit*), which will come into force on 1 January 2000 in two variants. Under the provision for a partial retirement grant (*Alters-teilzeitgeld*), women aged over 50 and men aged over 55 can reduce their standard working hours by half, while receiving 75% of their previous earnings. The enterprise receives a grant of 25% of the gross wage, but subject to the obligation to recruit a replacement worker. This obligation to recruit a replacement worker does not apply in the case of the "allowance to promote partial retirement" (*Beihilfe zur Förderung der Alters-teilzeit*); the level of the allowance is such as to offer only partial compensation, however. Moreover, the minimum age for the cut in working hours is two years higher. Both models can be used until reaching early retirement age. The employer must continue to pay insurance contributions based on the full salary, in order to avoid subsequent deductions from the pension level and so maintain incentives for employees. Experts see this model as an accompanying measure at best, as the potential number of workers for such partial retirement models is considered to be of the order of 2,500. In labour market policy terms, the effect will largely be that of generally reducing supply-side pressure on the labour market (to the extent that the model with an obligation to recruit a replacement worker is used); other advantages may arise in terms of reducing the problems involved in "passing on the baton" (work familiarisation and training of successor, etc.).

Experience with the solidarity premium model (*Solidaritätspre-mienmodel*) suggests that expecta-

tions should not be set too high. Under this model, firms in which working time is reduced are entitled to support for two or three years, provided replacement workers are recruited. So far, programme take-up has been marginal.

Support for short-time working (*Kurzarbeitsbeihilfe*) is available for firms facing temporary crises in order to preserve existing jobs. Normally, an enterprise may reduce its working hours by one fifth. The wage losses are offset by short-time working compensation paid by the employer, who in return receives financial support from the social security ministry. Under a new provision that forms part of the Pact for Older Persons, a cut in working time by up to one fifth is possible if a significant proportion of the workforce is aged over 45 and affected by short-time working. The cut in working hours may last up to one year.

Those meeting the conditions for an early old-age pension on the grounds of sufficient contribution years may enter retirement in stages under the *Gleitpension* (partial pension) scheme introduced in 1993. Working time must be reduced by at least 30%, that is, from 40 to 28 hours per week. Those on the scheme are paid a reduced wage by the firm and a partial pension by the pension insurance fund. Until the end of 1997, the pension levels were as follows: those reducing their working hours by 30% received 50% of their pension entitlement; those reducing their working time by half to 20 hours per week were able to claim 70% of their pension. This system favoured higher earners, and indeed it was this group that constituted the majority of the 1,138 participants in the scheme at the end of 1997. As of 1 January 1998, new regulations came into force: those on low earned incomes were entitled to almost their full pension (80%), whereas for higher earners the percentage figure was reduced to 40%. In 1999, under the Pact for Older Persons, the minimum partial pension was again raised, this time to 50%.

It cannot be determined at present to what extent this measure has led to an increase in the recruitment of replacement workers. The relatively small number of claimants – in 1998 the 1,058 cases represented 0.1% of all old-age pensions paid out – have sobered expectations in this regard, and the same is true of hopes of reducing expenditure by the pension funds through encouraging only partial claims for early old-age pensions.

## Trends at company and sectoral level

### Early retirement as an element in workforce restructuring

The efforts to facilitate the transition to early retirement as a social-policy measure for countering unemployment in old age increase firms' scope for shedding older workers (Höglinger et al., 1997). While the technical and structural changes, and the rationalisation requirement these made, affected all categories of workers, older workers are among the most prominent risk group. Increasingly, the excess supply of labour has led to a tightening of the selection criteria in the case of both labour-shedding measures and new recruitment. Employers justify their rejection of older workers primarily by claiming that they are too expensive, too inflexible, unable to adjust or to cope with the demands of working life, that they are often off sick or have health restrictions, that they are unwilling to undergo further training, that they will not remain in the firm for long, or that they do not fit into the firm's workforce age structure. Only to a limited extent are these reservations backed up by the empirical evidence. Studies have shown that the typical reservations and arguments put forward by firms are a conglomerate of socially ossified age-linked stereotyping, on the one hand, and supposed cost-benefit arguments, on the other (cf., among others, Höglinger et al., 1997). What is certainly clear is that any mono-causal explanation for the poor labour market chances of older work-

ers is inappropriate to complex social reality.

That the difficult economic and labour market situation is not the sole reason behind the precarious situation faced by older workers<sup>3</sup> has been clearly shown by Höglinger et al., who emphasised that "the reduction in employment among older workers has also occurred in those branches characterised by growth effects, and thus an increase in overall employment, such as the service sector". Yet this growth primarily reflects flexibilisation and rising numbers of part-time jobs. Moreover, if the service sector is disaggregated, it is revealed that the service branches in which employment growth was recorded offer either traditional, often physically demanding jobs (hotel and catering, social services) or producer services, which tend to have an above-average proportion of younger workers (Höglinger et al., 1997).

Whether the shedding of older workers occurs as a way of reducing staffing levels in the course of rationalisation programmes or, via replacement by younger workers, as a means of workforce restructuring, experts have criticised firms for instrumentalising socially motivated measures, such as easier access to early retirement, as an element in their personnel management strategies (cf., for example, Höglinger, 1997; Ziniel, 1997).

### Corporate strategies and collective regulation

It is difficult to find examples of company-level models based on the "productive ageing" or "active ageing" approach. Indeed, Austrian firms must be motivated to take advantage of the legal options already available, as experience with the relevant models has shown. Collective agreements have been reached, for instance, by the electricity supply firms in such a way that the right to one (paid) week per year for the further training of younger employees is to be used to make it easier to retain older workers until retirement age.

### Personnel development

Given an excess supply of labour and social policy measures that cushion redundancies in a socially acceptable fashion, firms have no incentive to invest in older workers. Moreover, rapid technological change and structural upheavals mean – on the surface, at least – that the experience and know-how of older workers are increasingly dispensable.

Internal personnel management strategies for older members of staff consist, in the case of highly qualified staff, in promotion to leadership and executive positions; for the less highly skilled, the usual option is to redeploy them to low-skill or less demanding routine activities ("sheltered work"). Experts have criticised the fact that, in view of the prevailing practice of early retirement, firms have failed to develop models, relating to working structures, working time regulations and training processes, that promote the integration of older workers and use and maintain their performance potential in advanced age (Höglinger et al., 1997).

Studies have shown that those responsible for personnel management base their decisions on a stereotypical understanding of the strengths and weaknesses of the young and the old, with scant regard paid to well-founded empirical evidence. In a survey conducted in the state of Tyrol, personnel managers exhibited an astonishing view of their role: asked about measures considered necessary within the company, the most frequent responses were "to rethink prejudices and judgements about

older workers" and "forward personnel planning" (quoted from Presse- und Informationsdienst für Sozialpolitik, 1997).

### Perspectives of older workers

#### The risk of unemployment and the chances of re-employment

Older workers are less at risk of becoming unemployed than younger workers. Entries into unemployment as a proportion of employee numbers in the over-50 age category are lower than the average entry rate<sup>4</sup>. The principle of seniority provides added protection against redundancy, although, as the unemployment figures show, this by no means implies an "employment guarantee"; at the same time, it serves to make it more difficult to regain employment once unemployed. The above-average duration of unemployment spells is evidence of the poor re-employment chances of the older unemployed; this is what is responsible for the above-average unemployment rates among older persons.

The data on long-term unemployment clearly reveal the above-average

<sup>3</sup> Although, of course, via the excess supply of labour, which permits discriminatory mechanisms to make their full effects felt, it does play a crucial role.

<sup>4</sup> However, these figures do not include exits from employment resulting from early retirement on the grounds of the number of contribution years or of reduced work capacity.

<sup>5</sup> The indicator "exits from registered unemployment" also contains exits for other reasons than taking up employment.

**Table 4: Unemployment rates for older workers by age category and gender (in %)**

	Men*			Women*		
	50–54 years	55–59 years	Total	50–54 years	55–59 years	Total
1989	4.8	6.2	4.6	6.7	4.8	5.5
1993	8.4	12.1	6.7	12.2	8.3	6.9
1996	8.4	9.9	6.9	10.4	6.0	7.3
1998	8.7	12.7	6.9	11.2	8.9	7.5

\* In interpreting the data, it is necessary to take account of the differences in the statutory and early retirement ages for men (65/60) and women (59/55).

Source: AMS.

age degree to which the older cohorts are affected and point to the poor chances of regaining employment as the most serious problem facing older people on the labour market. Whereas in 1998 around 59% of all those affected by unemployment (exits from unemployment) were able to find work within a period of three months<sup>5</sup>, this was true of only around 44% of those over age 50. They accounted for around 21% of the annual average stock of unemployment: among those registered unemployed for between six months and one year, the figure rises to 29%; and among those unemployed for more than a year, to 41%. Half (51%) of the annual average stock of the registered unemployed aged over 50 were long-term unemployed (more than 6 months). The average duration of an unemployment spell was 127 days; differentiating by age group, this figure rises consistently with age. Those aged between 50 and 55 remained unemployed on average for 182 days; for the 55–60 year-olds, the figure is 249 days, with a figure of 359 days for the over-60s. In all cases, women are worse affected than men<sup>6</sup>.

Tough competition resulting from the excess supply of labour means that workers are becoming “old” ever earlier and have to struggle with the difficulties that that brings. A study by the Ludwig Boltzmann Institute for Growth Research shows that “age” is set very differently, according to gender, qualification and branch. The age limit for women is set even earlier than that for men, whereby gender appears to be seen as a more important criterion than qualification level. Of those responsible for personnel decisions in the survey, 30% set an age limit for new recruits of 35 years; a further 17% set the limit at 40 (Finder, 1997).

### Pension levels

The Austrian pension system is based on the insurance principle and thus on that of “contribution-equivalence”. As a result, the pension level is deter-

mined by the level of earned income (calculation base) and by the number of insurance-months paid during the course of working life (duration of employment). There is no provision within the statutory pension system for a basic provision in the form of a minimum pension. However, there is a minimum supplementary benefit (*Ausgleichszulage*) that guarantees a minimum income, oriented towards need and allowing for other forms of personal or household income.

Almost all pension income (93%) is derived from the statutory pension system. The average pension level is relatively high – average net pensions represent 72.7% of net wage and salary income – but there are substantial differences between social groups and particularly between the sexes. In December 1998, the average old-age pension (all pension funds) amounted to ATS 11,493. On average, men received ATS 14,999; women, by contrast, just ATS 8,779. The lowest pensions were paid out to farmers (ATS 7,807) and to blue-collar workers (ATS 9,122). Average pensions for white-collar workers amounted to ATS 14,664<sup>7</sup> (Hauptverband der Österreichischen Sozialversicherungsträger, 1999).

The difference in pension levels between the sexes can be explained with reference to the generally lower earned income of women and interruptions to occupational biographies due to childcare. Under the 1993 pension reform, the recognition of childcare periods was improved and now amounts to up to four years per child.

### Access to training and further training measures

The half-life of knowledge is steadily declining: as technological breakthroughs occur at ever-shorter intervals, patterns of work organisation and occupational contents change, making it necessary to undergo permanent further training. Further training and adjustment training as a preventive measure to avoid unemployment is becoming increasingly important. This is particularly true of

older workers, whose experience and know-how are increasingly being devalued in the face of constant change.

A study into the further training behaviour of workers over 40 has shown that 39% of employees aged over 39 had not undergone further training during the previous five years, whereby participation in training measures was significantly lower among women. Differentiating the statistics by age group does not reveal statistically significant differences between the age groups among the over-40s, which suggests that a substantial proportion of older workers is cut off from further training at a relatively early stage (Heimgartner et al., 1996).

Studies have shown that the willingness to participate in further training is heavily dependent on the individual's state of knowledge; it can therefore be profoundly influenced if information and incentives are provided by and in firms. If the employer provides a stimulus, there is a major jump in participation in training (Heimgartner et al., 1996). In practice, however, firms' training policies tend to be age-selective: in view of the short “operating life” of older workers, firms have little incentive to invest in training their older members of staff. The neglect of this group in further training by companies was clearly revealed through an evaluation of Objective 4 of the European Social Fund (measures for the employed), which showed workers aged over 45 to be seriously under-represented in qualification-adjustment measures (IFA Steiermark, 1997).

Yet not least with a view to demographic changes, continuous further training, especially of older workers, will be of ever-growing importance. Whereas the major technological and structural upheavals of recent years were largely accomplished by younger workers, in future they will increas-

<sup>6</sup> Source: AMS (public employment service); own calculations.

<sup>7</sup> The figures include the means-tested supplementary benefit and child allowance.

ingly have to be borne by generally older employees (Höglinger et al. 1997). However, labour market policy measures to promote the vocational training of older workers are still in their infancy. In the state of Upper Austria, within the framework of the "productive ageing" support area of the Regional Employment and Qualification Pact, the Austrian public employment service (AMS) and the Upper Austrian state government promote further training for workers aged over 45 by assuming the greater part of the costs of training; support for women workers is ten percentage points higher. Training leave is available to permit the employed to take up between three and twelve months off work for further training. The AMS pay a further training allowance of EUR 404 per month. In order to establish incentives for older workers to claim, a provision under the Pact for Older Persons established that for persons aged over 45 periods on training leave are counted as insurance-months in determining the pension level.

## Conclusion: Policy options

Policy action is clearly urgently required in the face of demographic scenarios indicating that the Austrian labour force is rapidly ageing and life that expectancy is increasing, as is the duration of claims on benefits from the pension insurance system.

Against this background, and in view of rising unemployment among older persons, further measures are required with the aim of developing a consistent strategy of "active ageing". Steps to raise the effective retirement age and prolong working life, in order to ensure the viability of the pension system, cannot be implemented without an overall conception that incorporates support measures for the continued employment of older workers; otherwise, the problems will merely be pushed into other areas.

Additional active labour market policy measures are required to promote the reintegration of the older unemployed. Secondly, attractive models must be implemented that combine a reduction in working hours with a gradual move into retirement, so as to keep older workers in the employment system longer. Although there are examples of such measures in operation in Austria, so far take-up levels for these measures have been far from satisfactory. It has emerged that both employees and employers lack adequate information on the models in existence; thus, an awareness-raising campaign constitutes a necessary accompanying measure.

The required two-track strategy of compensation and prevention will in future need to be applied to increasingly younger cohorts. In doing so, there must be a clear focus on support for further training.

The agreements reached within the Pact for Older Persons mark an important step forward in the direction of "active ageing". The pact constitutes a successful attempt to bring together all the relevant labour market actors in order to implement a strategy of active ageing.

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# Portugal

## Introduction

Portugal has one of the highest employment rates for older workers in the European Union; for the age group 55–65, it amounted to 46.9% in 1997, compared with an EU average of 35.9%<sup>1</sup>. The unemployment rate of these workers (>54 years old) is below the national average (3.7% compared with 6.7%), but their long-term unemployment rate is higher (60.5% of the unemployed compared with 42.5%<sup>2</sup>). More than 74% of these workers have had no more than four years of schooling<sup>3</sup>.

As far as demographic trends are concerned, the situation in Portugal, as in other European countries, is characterised by an ageing population, at both the top and the bottom of the age pyramid; the number of young people has fallen from 29% of the population in 1960 to 18% in 1995. This trend is explained by a decline in the birth rate – the gross fertility rate has fallen from 3.1 in 1960 to 1.4 in 1995 – as well as by increasing life expectancy (61.2 years in 1960 compared with 71.6 years in 1995 for men, and 66.8 years compared with 78.6 years for women). These demographic changes have been reflected on the labour market. Between 1992 and 1997, the size of the active population increased by 24.6%.

Prognoses suggest that by the year 2020 those aged 65 or over will increase as a proportion of the population from 14.7% in 1995 to 18%. In 2020 working adults aged between 50 and 64 will account for 20.4% of the entire working population, compared with 16.5% in 1995. In 2000, the number of people aged over 65 will overtake the number of younger people (aged under 14), and the “ageing index” – the number of older people for every 100 young people) will be above 100 in 2015, com-

pared with 83.5 in 1995. The number of older people will remain constant as a share of the working population until 2000, but will increase after that date.

The ageing of the population clearly represents an extremely tight constraint on the evolution of the social security system, for its effect both reduces receipts and raises expenditure. Unlike the trends observed in other EU countries, in which the socio-economic situation of older persons is relatively satisfactory, in Portugal the living conditions of this group of the population are very precarious<sup>4</sup>. Indeed, a number of studies consider older persons to be one of the most vulnerable social groups in terms of the risk of poverty. The decline in informal protection networks (which some authors have termed Portugal’s “providential society”) makes it necessary to restructure the mechanisms of social protection, but at the same time it requires that particular attention be paid to the changing relations between older persons and family structures.

In Portugal social security expenditure amounted to 18% of GDP in 1993 (compared with 28% for the EU12), and the system is not in danger of collapsing until at least 2010 to 2015. Old-age and disability pensions account for 73% of total spending on social security (excluding benefits paid out by the health insurance funds). Such spending is growing at a rate of 8%, whereas the number of beneficiaries is growing at a rate of 4.4%. Disability pensions still account for 20% of spending, although the number of recipients has been falling since 1990. Thus, spending directly linked to demographic trends is rising very rapidly, and this factor is becoming increasingly important because the average number of life-years following the date of retirement is progressively increasing.

Consequently, it appears to be vital that the social security system be restructured in order to guarantee its viability. The socio-economic vulnerability of the affected population also calls for specific employment policy measures (training for certain groups of this population, given their low level of education and the spread of sectoral restructuring processes currently under way) and the development of new spheres of activity (in order to counter the risk of unemployment).

## Changes in the policy framework: recent trends

Within the framework of Guideline 4, the 1999 National Action Plan for employment defines “maintaining the employment level of the 50–64-year age group” as a target. The aim, therefore, is more to restrain early exits from the labour force than to promote “active ageing”. The new instruments to be deployed in 1999 are:

- the application of a regime to flexibilise the retirement age;
- the re-evaluation of the fiscal and para-fiscal framework for labour supply and demand and of all measures that stimulate workers to leave working life early;
- revision of the unemployment benefit regime in such a way that it provides as few disincentives as possible to re-entering the labour market.

1 Data from the Eurostat’s Labour Force Survey. The same data also reveal that the figure for the 15 EU Member States has fallen since 1985, whereas it has risen in Portugal.

2 These figures were provided by the National Statistics Institute (INE).

3 These data refer only to wage- and salary-earners and are taken from the Labour Ministry’s *Quadros do Pessoal*.

4 See the information given below on pension levels.

### **Policies relating to (statutory) retirement age and pathways to early exit**

The statutory retirement age is currently 65 years for all workers, following a decision a few years ago to raise the retirement age of women from 63 to 65.

Early retirement was instituted as a legal category in 1991, essentially as a social policy measure for workers facing difficulties in adapting to technological and managerial changes. Although the measure was originally conceived for workers affected by restructuring, it has exhibited a tendency to spread to other sectors and professions, a trend that can also be observed for "anticipated retirement" (see below).

### **Policies to increase the participation rates of older workers and retain/reintegrate older workers**

There are a number of instruments that aim to promote the reintegration of workers in general, but none of them are geared specifically to older workers:

- general measures in support of job creation/recruitment, of which some discriminate in favour of unemployed women aged above 45;
- measures to aid jobsearch (building up self-confidence, personalised guidance, etc.) for the long-term and older unemployed;
- employment policy programmes to re-establish contacts with the labour market for the most vulnerable workers (recent data indicate that those aged over 45 constitute around 25% of those in employment).

The National Action Plan for employment makes provision for the initiation of the so-called "Crack Club" programme, the aim of which is to make use of the know-how of highly skilled retired workers by transmitting their knowledge and experience by way of training projects and/or technical assistance schemes in support of companies or new projects.

Finally, following the adoption of Decree-Law No. 119/99 of 14 April 1999, the social security system is to make provision for a part-time unemployment benefit, which can be drawn while working part time, performing an "occupational" activity or undergoing subsidised training, amongst other things<sup>5</sup>.

The situation on the Portuguese labour market does not imply an urgent need to promote active ageing, which is why there is no genuine policy dedicated explicitly to retaining workers in employment. However, the social security system does contain a number of measures that serve to counter early exit from the labour force. One of the incentives to remain in the active population is the possibility of accumulating the old-age pension – and under certain conditions, the disability pension – with earned income, a measure that is accompanied by a reduction in social insurance contributions.

### **Policies promoting flexible (part-time) working and gradual retirement provisions**

Decree-Law No. 6/99 of 8 January 1999, introduced a new regime that provides for a flexibilisation of access to a retirement pension, one that depends on the "contribution profile" of the worker; it means that those with a "complete" career in terms of contribution years are free to choose their retirement age in accordance with general practice within the EU (resolution of the European Council No. 82/857/CEE). Under this regime a deduction factor was introduced for the statutory old-age pension for those retiring early – which is now possible from the age of 55 – and a premium of 10% per year was introduced for workers aged over 65 who have paid contributions for at least 40 years and who remain in employment until the age of 70.

As far as part-time work is concerned, the government recently presented to the National Assembly a bill defining the legal provisions for part-time work and providing incen-

tives that will serve to promote it. It is possible that this type of provision might benefit older workers by giving them the opportunity to retire progressively from active life.

### **Developments at the level of companies and sectors**

Sectoral restructuring measures are accompanied by certain provisions explicitly targeted at older workers. They include the extension of entitlement to unemployment benefit – the entitlement period can be extended to a maximum of 30 months for the unemployed aged over 45 – or increases in certain family benefits. Other measures include early retirement agreements applying in certain sectors or enterprises declared to be undergoing restructuring, which provide for reductions in contribution rates and early retirement.

A special early retirement scheme ("anticipated retirement") implemented in 1993 for workers aged over 60 was initially intended for workers in physically demanding professions (those working at sea, in ports and mining); however, the scope of the measure has been progressively extended for reasons linked to the inability of the labour market to absorb surplus labour and to the flexibilisation needs of certain economic sectors and enterprises.

Data relating to 1995/96 show that around 50,000 people (of which only around 5,000 were women) were drawing an anticipated pension for labour market-related reasons. As in the case of early retirement, these measures are linked to adjustments in the context of the restructuring processes currently under way, in which the external flexibilisation of older workers is one of the most widely used measures. This same aim has been pursued by a large number of legislative measures adopted over the last 25 years, which have benefited, in particular, work-

<sup>5</sup> The level of the part-time unemployment benefit corresponds to the difference between the level of the total benefit plus 25% and the earnings gained from part-time employment.

ers in the merchant navy and ports, mining and metallurgy.

## Perspectives of older workers

### Income situation and pension expectations

Knowledge of the pension level constitutes a very important basis for appropriately evaluating the relevance of promoting active ageing. Average earnings in Portugal are among the lowest in Europe, and this is also true of retirement pensions, as can be seen in Table 1.

The average level of effective pensions is below the national minimum wage, which itself, in terms of take-home pay, is located close to the poverty threshold. This indicates that a very large majority of older persons have a very low standard of living. This is explained by the fact that many of these pensioners have had a very short "contribution career", that is, they have paid contributions for too few years and thus are only entitled to a minimum pension, the level of which was below PTE 3,000 in 1996. The situation for individual pensioners improves as the number of contribution years increases, and

the pensions drawn by those with a complete contribution record are substantially higher than the minimum wage, although they are less than the average wage.

Two conclusions can be drawn from this state of affairs:

1. As the social security system "matures"<sup>6</sup>, expenditure on social security will rise substantially, for the number of contribution years recorded by each new entrant into the pension system, and thus the level of their pension entitlement, will continue to rise until 2015. In addition, the number of pensioners will increase by a factor of six between now and 2015. The joint impact of these trends is expected to be a rise by 50% in the proportion of GDP allocated to old-age pensions.
2. The vast majority of workers has no "economic" interest in voluntarily leaving the labour force prior to the statutory retirement age, as this results in pension levels that are even lower than their current salaries. It is only those workers who have a complete contribution biography and high earned income who will be willing to accept early retirement. As far as active ageing is concerned, it is precisely

this group of workers, whose educational level is higher than the average, that might wish to remain active beyond the official retirement age; the vast majority of other workers, who find little or no satisfaction in their work (all the more so in view of the type of jobs and the specialisation characteristic of the Portuguese economy, which is characterised by low-skill workers and jobs), want nothing more than to stop working – provided this is economically feasible.

### Access to vocational training and lifelong learning

The educational level of the Portuguese labour force is particularly low, especially among those aged over 40. Within the framework of Guideline 6, the Portuguese National Action Plan for employment has paid particular attention to promoting access to lifelong learning by workers aged over 45.

Among the new measures planned for 1999, perhaps the most important is the ENDURANCE initiative, which aims to promote lifelong education and training by means of providing information, orientation and awareness-raising activities; stimulating collective bargaining on these topics; developing new training methods and strengthening continuing training, education-training programmes and adult education. The development of the programme "Social Project S@voir+" ("knowing more") is also a step forward towards this goal. In particular, it makes provision for the establishment of a National Agency for Adult Education and Training, the opening up of "clubs s@voir", the progressive establishment of a formal system of validation for informally acquired knowledge and skills and an invitation to tender for assistance with adult education and training initiatives.

6 The social security system in Portugal is of very recent date; the Basic Social Security Law dates from 1984. This explains why the contribution records are so short for most workers, exceptions being public sector workers, those working in large companies, and certain sectors of the economy.

**Table 1: Retirement pensions calculated as a function of reference earnings (in PTE)**

Averages at the start of the year	1990	1994	1996	1997*
Average wage <sup>a</sup>	67,808	112,925	124,580	127,196
National minimum wage (NMW)	35,000	49,300	54,600	56,700
Average pension (AP)	25,140	39,490	44,710	46,800
AP/NMW in % (including all pensions)	72	80	82	83
Average career length in years <sup>b</sup>	20	21	22	24
Pension after average career (PAC)	29,836	47,429	54,815	61,054
PAC/AP in %	119	120	123	130
PAC/NMW in %	85	96	100	108
Complete career length (in years)	37	40	40	40
Pension after complete career (PCC)	54,246	90,340	99,664	101,757
PCC/AP in %	216	229	223	217
PCC/NMW in %	155	183	183	179

\* The figures for 1997 have been extrapolated on the basis of an increase of 2.1% on the average wage in 1996.

a Corresponds to average earnings (indicator that approximates best to the base concept used to calculate social security contributions).

b Corresponds to the number of years for which the worker has paid contributions.

Source: Department of Labour, Employment and Training Statistics: *Quadros do Pessoal*.

## The early retirement vs. unemployment choice

Although no study has been made of this topic to date, it is highly likely that many workers aged over 50 have a very reduced "employability". Faced with the prospect of unemployment, many older workers attempt to obtain a minimum income level through recourse to early retirement, "anticipated retirement" or other, more informal "arrangements"<sup>7</sup>. This situation is well illustrated by the number of redundancies on the grounds of work incapacity (which amounted to almost 40,000 cases in 1996) in the various social security regimes. Although on the decline, this figure remains high. Several indicators show that claims under this measure are linked to the difficulties encountered in gaining access to the labour market. On the other hand, the very low level of pension entitlements is an incentive to look for supplementary work, which is often precarious in nature, in order to top up this source of income.

## Conclusion: policy options

In spite of the probably limited propensity of the greater part of the working population to take steps towards active ageing, a commission set up by the former minister for social solidarity in 1996 in order to identify the reforms necessary in the social security system (see above) elaborated a number of possible scenarios. Both an increase in the statutory retirement age and a flexibilisation of the entry into retirement were put forward. Raising the retirement age from 65 to 68, under way since 1997 by adding one year to the retirement age each year, postpones the point in time at which the total costs of the system go into the red with respect to GDP by five years. Although this will not solve the problem of the financial viability of the social security system, the additional scope for action it creates is not negligible. However, for a number of reasons, this increase in the retirement age has not received the support of

all experts. The arguments in favour of an increase are as follows:

- later entry into the labour market due to longer initial education and training,
- sustained increase in the life expectancy of pensioners,
- the tertiarisation of the economy (decline in physically demanding occupations).

The principal argument against such an increase relates to the fact that a large proportion of those retiring in the next decade will consist of workers who entered the labour market early in life and worked in demanding professions (women in the textile industry, men in the metallurgy and mechanical engineering sectors and in construction). By contrast, there is widespread agreement on the need to flexibilise the age of retirement by means of:

- positive incentives to prolong active working life (supplementary pension entitlements proportional to the additional years worked beyond 65);
- providing access to a retirement pension for all those aged between 62 and 65 who have paid contributions for 40 years;
- negative incentives regarding "anticipated retirement", which is currently not possible before the age of 65 (apart from certain cases stipulated by law); such retirement should be legally permitted, but with a reduction in pension entitlement in line with the length of working life. A revision of all legal provisions relating to the anticipated pension is also recommended.

A bundle of measures was also introduced under the auspices of the Strategic Concertation Accord signed in December 1996 between the government and certain social partners, the most important of which are: partial retirement, or the opportunity to reduce working hours progressively; converting employment contracts into fixed-term contracts when workers reach the statutory retirement age; and reducing employer social se-

curity contributions for those workers with a full contribution record. However, many of the elements envisaged in this accord have not yet been translated into concrete measures.

As far as the attitudes of workers themselves are concerned, a number of social groups have brought pressure to bear on the public authorities to introduce support measures for early exit from the labour force. This reflects the great difficulties faced by older workers if they are forced to regain employment or even just to retain their existing employment relations.

In spite of recent measures introduced in Portugal to increase the flexibility of working hours and retirement ages, the emergence of advanced forms of organising working life comes up against serious obstacles: low-skill labour, very low wages, short contribution periods and a low level of pension entitlements; indeed, on the contrary, all of these factors are arguments for extending working life, provided this is of better quality.

As a result, it is income maximisation that tends to be the basic and most frequent choice of workers throughout their active life. In Portugal early exit from the work force is frequently involuntary, particularly in sectors and professions in which unemployment is especially high.

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<sup>7</sup> Most enterprises seeking to reduce the size of their workforce try to minimise involuntary redundancies, and most terminations are reached "in joint agreement" between the worker and management. Normally, the worker is provided with a redundancy allowance and then leaves "voluntarily".



## Finland

### Introduction

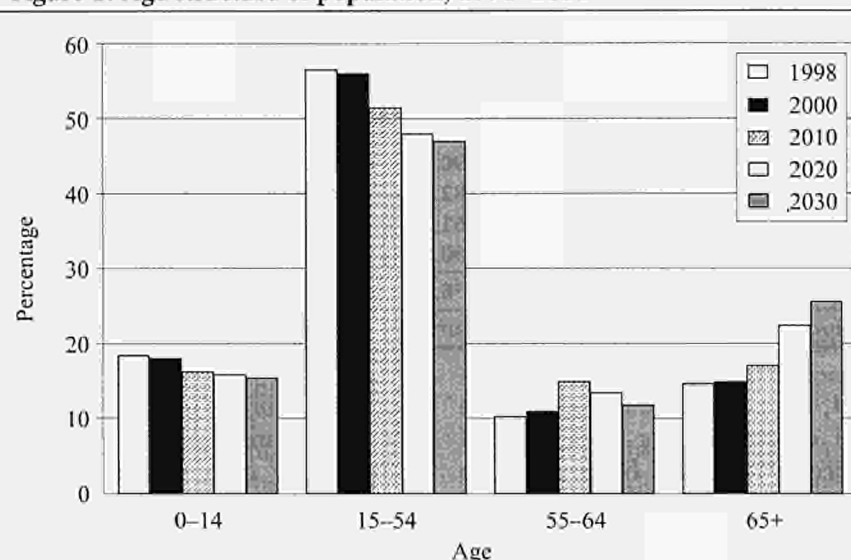
The population is ageing at a rapid rate in Finland, as in other European countries. Due to low fertility rates, the population shares of young age groups have declined. Today the Finnish labour force is older than ever before.

In 1998, about 19% of the population was under 15 years of age, and as many as 15% had reached the age of 65. It is expected that by 2030 over a quarter of the population will be 65 years or over (Figure 1). The large age cohorts that were born after the Second World War have already passed the age of 50. They will qualify for an old-age pension during the period 2010–2020. When this happens, about 80,000 to 90,000 people will exit annually from the labour market, while at the same time only 60,000 people will be entering it. Without immigration, the Finnish labour force is expected to shrink in the future. The combination of an ageing population and a shrinking labour force puts heavy pressure on the labour market and the social protection system.

According to an OECD survey, Finnish expenditure on old-age pensions in 2030 could rise to a level corresponding to 18% of GDP. This would be the second-highest figure among OECD countries (Italy is at the top of the list). In 1995, old-age pensions accounted for about 10% of GDP in Finland.

A further challenge related to the ageing labour force comes from the early exit behaviour of Finnish workers. Due to different early retirement schemes, pensioners make up a larger share of the population in Finland than the average for other EU countries. The tendency towards early retirement has lowered the labour force participation rates of older workers. The cost pressure due to

Figure 1: Age structure of population, 1998–2030



Source: Statistics Finland: *Population 1998*, p. 6.

early exit behaviour and prolonged life expectancy in Finland has been one of the highest among OECD countries. It has been found that, due to the combined effect of these two factors, the burden on social security rose in Finland by 25% between the years 1976 and 1995. If the present situation prevails in the future, all pension payments (including family, early retirement and old-age pensions) will rise to a level which corresponds to one third of GDP in 2030 (Rantahalvari & Ropponen, 1998).

In 1997, only one out of four men and less than one out of five women aged 60–64 participated in the labour market (Table 1); most of these were employed and very few unemployed. This positive picture changes, however, when recipients of unemployment pension are taken into account. Including unemployment pensioners, unemployment has hit hardest in the 60–64 age group.

Of all ageing workers, open unemployment is highest among those aged 55–59: the employment share in this age group is only 50%. At present,

over-50 year-olds account for a quarter of all unemployed jobseekers. By the year 2000, this group is expected to account for as much as 45% if no preventive steps are taken.

### Changes in the policy framework: recent trends

#### Policies related to accumulation of pensions before and after (statutory) retirement age

There has been serious concern about the disincentives for active ageing inherent in the social security system in Finland. The average pension age of 59 is regarded to be far too low. The government has announced its long-term intention to raise this age to 61–62, to a level closer to the formal retirement age of 65. Different legislative and labour market measures have been taken to achieve this goal.

In 1994, regulations for the ordinary old-age pension were revised in the hope of increasing older workers' incentives to remain employed. In

**Table 1: Labour force participation and employment by age and gender in 1990 and 1997 (in %)**

Selected age groups	1990		1997	
	Men	Women	Men	Women
<i>Labour force participation rate</i>				
45-50 years	92.1	90.2	89.1	89.0
50-54 years	85.7	83.7	83.0	84.5
55-59 years	63.2	61.6	60.9	59.0
60-64 years	30.3	21.0	24.5	17.7
15-64 years	79.6	73.4	74.6	69.4
<i>Employment rate</i>				
45-50 years	90.1	89.3	80.9	80.5
50-54 years	82.7	82.4	73.5	75.5
55-59 years	61.2	59.0	50.5	49.2
60-64 years	30.0	20.8	22.7	16.3
15-64 years	76.7	71.4	65.4	60.3

Source: Statistics Finland Labour Force Survey.

1994, the percentage increase in the level of pension for each year of service was raised from 1.5% to 2.5% beyond the age of 60, making it more profitable to remain employed after this age. Due to these changes, the early old-age pension choice (and other early retirement) has become more costly than before.

Further, in 1996, the accumulation criteria for early pensions were revised for the period when a person is already on early retirement pension but not yet on old-age pension (for the so-called "future time"). These changes permanently reduce the level of final pension and, therefore, create an additional disincentive to retire early.

Even though pensioners who defer retirement beyond the age of 65 receive a 1% increase for each month in the final pension level, there are few individuals who actually work after the age of 65. Despite this very high financial incentive to defer retirement, only 6% of men and 2% of women aged 65-74 were employed in 1997. This fact reflects attitudes of both employees and employers. There appears to be a social consensus that older workers should consider retirement options when possible.

### Pathways to early exit

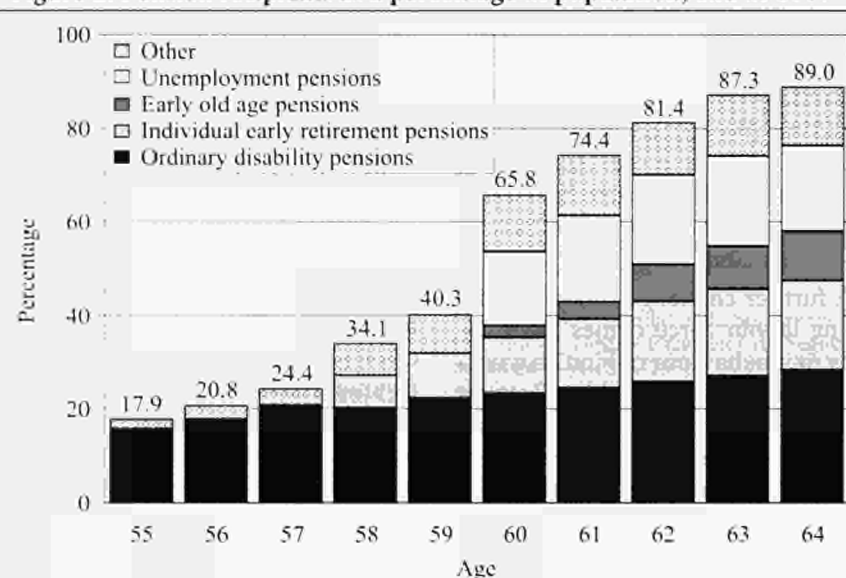
Regulations about statutory pension schemes provide guidelines for early

exit behaviour in Finland; 96% of total expenditure on pension benefits is statutory by nature. In addition to ordinary disability pension, there are four early retirement schemes available for older workers, each targeted towards specific groups.<sup>1</sup> Figure 2 shows population shares of pension recipients at different ages in 1997. Nearly 18% of those aged 55 are already on a pension, mainly due to disability. At the age of 64, almost 90% have retired. Thus, only one person in ten stays in the labour market until the formal retirement age of 65.

The unemployment pension scheme was introduced in 1971. Under this scheme, the unemployed aged between 60 and 64 are eligible for the unemployment pension, provided they have been under the unemployment allowance system for a certain period. During the years 1991-1996, the unemployed aged 55 or over were allowed to receive unemployment allowance for a prolonged period, until they reached the age of 60. Together with other regulations, this meant that, in practice, a person who became unemployed at the age of 53 and received unemployment allowance was guaranteed an unemployment pension at the age of 60 without having to search for a job in the meantime. In 1997, the age limit for the extended unemployment allowance period was raised to 57 in order to improve incentives for those between 53 and 55 years of age to search for a job. The unemployment pension scheme has been the largest early retirement scheme in Finland. In 1997, about 18% of those aged 60-64 were on an unemployment pension.

In 1986, the individual early retirement pension scheme was

1 In addition, there are special farmers' pensions and ordinary old-age pensions available before the age of 65.

**Figure 2: Pension recipients as a percentage of population, end of 1997**

Source: Statistical Yearbook of Pensioners in Finland.



launched for employees aged between 55 and 64 with a long working history in the private sector (extended to the public sector in 1989). People are eligible for this scheme if their ability to work has declined such that it is no longer possible for them to continue in their current employment. This became the second largest early retirement scheme. In 1994, the qualifying age for the pension was lifted to 58 years in an attempt to increase the employment rate of older workers. In 1997, 3% of those aged 55–59 and 16% of those aged 60–64 received individual early retirement pensions.

The early old-age pension scheme was introduced in the mid-1980s in the private sector and later in the public sector. Employees can take an early old-age pension at the age of 60 in the private sector and at the age of 58 in the public sector. The old-age pension is normally determined by multiplying 1.5% of the wage or salary by the number of years of service.<sup>2</sup> The maximum pension is 60% of the average pay in the private sector. If an individual takes an early old-age pension, his or her level of pension will be permanently reduced by 6% for each year short of age 65. Despite this negative incentive, the early old-age pension has been one of the main channels of early exit from the Finnish labour market. In 1997, nearly 7% of those aged 60–64 were on early old-age pensions.

In Finland, it is possible to enjoy tax allowances for private pension savings that allow for early retirement when a person is 58–64 years of age. This year, the regulations for these tax allowances have been tightened, so that in new pension contracts a tax allowance is possible only if the pension starts at the age of 60. The amount of the tax allowance has also been revised, especially in cases in which the pension savings are taken on behalf of a spouse.

<sup>2</sup> This is the case in the private sector. In the public sector, the multiplier is between 1.5% and 2.2%, depending on the person's age and years of service.

### **Policies to increase participation rates and to retain/reintegrate older workers, by means of active labour market policy measures as well**

In 1998, a combination support scheme was introduced to promote employment among the long-term unemployed. Over 60% of the unemployed aged 55–64 are long-term unemployed, and it was thought that this scheme would offer them an additional pathway to employment. Under this scheme, labour market support, which long-term unemployed jobseekers often end up receiving, is paid directly to the employer. There is also an additional employment benefit that is decided separately in each case. A person can be employed under this scheme for at most 12 months. Due to the relatively modest income support related to this scheme, it is not likely to be very attractive for older workers. In particular, pension rights may be impaired if an older worker is placed in a job with earnings that do not match previous income levels. This problem has been tackled by a new law that will be described below. During 1998, about 2,600 people on average were employed under this scheme.

Temporary employment has been made more attractive to older workers through a law according to which an unemployed person, who is 55 years of age or older, can accept temporary employment (lasting at most for 10 months) at a lower income than what he or she was used to without it having a negative effect on the future pension level. This law is in effect from 1 July 1998 until 31 December 2000.

In 1996–1997, a pilot study evaluated the needs for different labour market services among ageing long-term unemployed. In 1998, this evaluation was extended to the whole country. Through these evaluations it is possible for labour market authorities to examine each jobseeker's individual employment possibilities, needs for rehabilitation and pension options.

### **Policies promoting flexible (part-time) work and gradual retirement provisions**

The job alternation compensation scheme, which is in effect until the end of the year 2000, makes it possible for an employee to go on leave for a specified period, if his or her employer hires an unemployed person as a replacement. This is not an age-specific scheme, but it is related to ageing in that it helps people retain their working ability while still being employed. About 4,000 people, on average, were on alternating leave in 1998. According to a survey carried out by the Ministry of Labour, this scheme has mostly attracted middle-aged women in the municipal sector.

Another scheme designed to relieve the workload of the employed and to offer employment opportunities to the unemployed is the part-time subsidy. It is granted to a full-time employee who voluntarily takes part-time employment for a certain period, on the condition that his or her employer recruits an unemployed jobseeker for the same period. This scheme started as an experiment in 1994 and became a permanent scheme in 1997. In 1998, an average of about 7,000 people participated in the scheme. It has been used mostly by those in the age group 34–50, and the people hired to replace these employees have been quite young – in the age group 26–30.

In 1994, in an effort to improve the labour market attachment of older workers, the eligibility age for the part-time pension was lowered from 60 to 58. Along with other early retirement pensions, the part-time pension was introduced in the mid-1980s. Despite its many attractive features, its use has been limited. In 1997, less than 2% of those aged 60–64 were on a part-time pension. One of the reasons for this is that a part-time pension is voluntary by nature and requires an employment contract.

To boost the use of the part-time pension, parliament has temporarily



lowered the qualifying age for the pension from 58 to 56 years for the period from 1 July 1998 to 31 December 2000. Employers are also obliged to try to arrange part-time employment for those who wish to take it. Furthermore, legislation on private-sector pensions has been altered in order to increase the level of pension in cases in which an employee becomes qualified for a disability pension while in part-time employment. It seems that, due to these changes, the number of part-time pensions has started to rise.

### Developments at the level of companies

In Finland, early exit behaviour is regulated through general legislation rather than through individual/collective agreements.<sup>3</sup> In terms of employment, collective agreements have a limited scope of action. In principle, the role of collective agreements is to specify the terms of an employment contract for *every single employee*. Therefore, they do not include regulations on the level of employment as such (and, hence, early retirement) and on the substitution of one group of workers by another.

It has been argued that employers' indirect labour costs are one of the biggest obstacles to employment because they raise the threshold for hiring new employees. About half of indirect labour costs consist of statutory social security contributions. Employment pension contributions are progressive with respect to the employee's age in firms that have 50 employees or more. For large firms, which have more than 1,000 employees, there is full experience rating in disability pensions, and for firms with more than 300 employees, there is a partial experience rating in unemployment pensions. Thus, if an individual working in a firm with more than 1,000 employees exits from the labour market due to a disability, his or her firm has to pay 100% of the costs of a disability pension until he or she is entitled to old-

age pension. In the case of unemployment pension, firms with more than 300 employees have to pay 50% of the costs of unemployment pension for each person that has been made redundant until he or she receives old-age pension. The present system of experience rating means that it is favourable for large employers to maintain the working ability of their workforce, and it is costly to dismiss people on loose grounds. On the other hand, experience rating means that recruiting ageing workers is risky, which creates obstacles to the labour market entry of older workers.

There has been an ongoing debate about the employability of older workers and the role of the social security system in this regard. In 1998, as part of an incomes policy agreement, labour market organisations and employees' pension institutions formed a working group to discuss these problems. This so-called Kari Puro's working group produced a short list of suggestions at the end of June 1999 for improving the employability of older workers on the Finnish labour market. Among other things, in order to make it less risky to employ a 50-year old worker, it was suggested that the last employer should not be solely liable for disability and unemployment pensions during the first three years of employment; the risk should be shared among a larger group of insured employers. Further, it was proposed that the experience rating should be set at the same level (80%) in the case of both disability and unemployment pension. Other changes relating to the eligibility criteria and the level of unemployment pension were also suggested. The working group, however, emphasised the importance of training and rehabilitation of older workers, so that they can be employed in the open, non-subsidised labour market. The government has been reviewing these suggestions, and it is expected that the impact of this work will be seen in legislative changes during the autumn.

There has been a huge effort at the company level, in connection with the National Programme for Ageing Workers launched by the Finnish government in 1997, to develop means to keep up employees' working ability and professional competence. The Finnish Institute of Occupational Health has been playing an integral part in this process. Many development projects have received support from the European Social Fund. According to the Working Ability Barometer, this effort has been quite successful: in 66–78% of firms with at least two employees, maintaining working ability has been on the agenda. However, a much smaller share of firms has been truly active. In large companies, 38% of managers claimed that they had a lot of activities related to maintaining working ability. In small companies, this figure was much smaller: 9%. This may reflect the fact that, due to the lack of experience rating in early retirement pensions in small firms, their interest in keeping up the working ability of their workforce is not as high as in large firms, which are experience-rated.

### Perspectives of older workers

#### Employment risks, re-employment prospects

When one considers the perspectives of older workers, the main factors to be considered concern the risk of early withdrawal from the labour market and unemployment. Older workers' future prospects are very different to those of other age groups as regards becoming unemployed or not.

How difficult is it for ageing workers to find work after unemployment? In Table 2, transition rates from unemployment to employment between the years 1996 and 1997 are reported for different age groups. These figures give a clear message.

<sup>3</sup> Labour market organisations, however, play an important role in the background work when legislation is under revision, and they are also involved in the administration of pension funds.

Compared with other age groups, older workers have a negligible probability of becoming employed. About 3–5% of those aged 55–59 and 3–4% of those aged 60–64 who were unemployed in 1996 found a job in 1997. Employment in the public sector includes subsidised employment. One third of those aged 15–44 found employment during the same period. Women had a higher probability of finding employment in the public sector than men.

Age discrimination in working life is prohibited by law in Finland. However, this does not guarantee equal treatment in practice for ageing workers. A recent study on age discrimination showed that in recruitment situations unemployed jobseekers experience more indirect than direct age discrimination (Kouvonen, 1999). A typical example of this type of discrimination is an abrupt termination of telephone calls by an employer when the jobseeker reveals his or her age. Ageing women suffer from gender discrimination in addition to age discrimination. An interview of employers in SMEs showed that 14% of them felt that there were tasks in their companies to which people over 45 years of age would have difficulties adapting. About 8% of wage-earners aged 55–64 said that they had experienced age discrimination at their workplaces. An interesting, and somewhat surprising, result from the study was that a considerable part of age discrimination was coming from co-workers.

When one considers legislation in relation to lay-offs or redundancies, protection of ageing workers per se appears to be fairly limited in Finland. Even though there have been some recommendations in collective agreements to take seniority into account in redundancies, this has not been a priority in practice. It appears that between 1996 and 1997 the probability of becoming unemployed was only slightly higher in the male 55–59 age group than in other age groups – except for women in the 15–44 age group (Table 3). In this age group, 5% of those who were still employed in 1996 became un-

**Table 2: Transition rates from unemployment to employment, 1996–1997 (in %)**

Selected age groups	Percentage getting new jobs		Percentage of new jobs in public sector	
	Men	Women	Men	Women
15–44 years	32.1	35.8	15.5	50.5
45–49 years	24.5	30.1	15.1	54.3
50–54 years	20.7	22.7	18.5	55.4
55–59 years	5.1	3.6	14.0	52.3
60–64 years	3.9	2.9	15.2	48.7

Source: Statistics Finland, Register-based Employment Statistics.

employed in 1997. Among those aged 60–64, about a quarter exited from the labour market between the years 1996 and 1997, which explains their lower than average unemployment propensities.

### Access to training and lifelong learning

The attendance rate in adult education in Finland is, on average, twice that of other EU countries. During the period 1995–1999, the government worked together with the social partners to implement the concept of lifelong learning. This work is reported in a committee report which includes examples of good practices involving lifelong learning (Komiteamietintö, 1997).

During the 1990s, the share of wage-earners and salaried employees who attended adult education subsidised by the employer has been highest in the 45–54 age group (Table 4). The lowest attendance rate has been among those aged 55–64.

Access to adult education declines significantly among the unemployed. According to the 1995 Adult Educa-

tion Survey, only 14% of the unemployed participated in vocational or work-related education in 1995. Among the unemployed aged 55–64, only 1% participated in adult education.

To improve the lifelong learning of the unemployed, the government has initiated a subsidy programme for self-motivated studies. Since 1 August 1997, the long-term unemployed with a long work history have been able to receive financial assistance for self-motivated studies or training that improves their skills and employability. The level of assistance is the same as the unemployment allowance, which is higher than the financial support for ordinary students. It was found that about 14,000 long-term unemployed used this option in 1997. By the end of 1998, however, only 800 participants had started studies under this scheme, which took policy-makers by surprise. There are many reasons for this disappointing result. The scheme started too late in the year for people to be able to enrol, some applicants were not approved by the educational authorities and the quali-

**Table 3: Transition rates from employment to non-employment, 1996–1997 (in %)**

Selected age groups	Percentage becoming unemployed		Percentage exiting from the labour market	
	Men	Women	Men	Women
15–44 years	4.2	5.2	4.1	7.1
45–49 years	3.1	3.8	2.0	1.7
50–54 years	3.0	3.9	2.5	2.1
55–59 years	4.9	5.1	6.3	7.4
60–64 years	2.7	3.6	24.1	25.4

Source: Statistics Finland, Register-based Employment Statistics.

**Table 4: Participation rates in employer-subsidised adult education (% of all employees)**

Selected age groups	1991	1995	1998
<i>Both genders</i>			
15–64 years	41.7	44.4	41.6
25–44 years	44.9	46.3	44.0
45–54 years	45.2	48.8	45.8
55–64 years	36.1	39.7	37.8
<i>Men</i>			
15–64 years	39.0	45.3	40.6
25–44 years	41.5	47.4	42.1
45–54 years	43.9	47.2	47.2
55–64 years	32.9	48.7	36.6
<i>Women</i>			
15–64 years	44.3	43.7	42.5
25–44 years	48.2	45.3	46.2
45–54 years	46.4	49.9	44.6
55–64 years	38.9	33.6	38.7

Source: Sosiaali- ja terveystieteiden ministeriö (1999c), Table 5, p. 36.

fying time limit regarding work history was thought to be tough (Silvennoinen, 1998). In 1998–1999, the qualifying time limits regarding work history are to be relaxed, which will increase the number of people eligible for the assistance. It does not, however, provide a solution for when there is a lack of interest. In adult education, there seems to be a paradox: people who, on subjective grounds, think that they do not need additional education are often the ones who, on objective grounds, have the most urgent need for it.

To promote labour market training among ageing jobseekers, special courses have been designed to meet individual needs. The share of older jobseekers who have received labour market training has, however, remained at low levels. In 1998, about 1% of those aged 55–59 and a 0.5% of those aged 60–64 attended labour market training. In the 35–39 age group, over 13% of jobseekers participated in labour market training. It is rather disappointing that labour market training has not provided a proper pathway to education among older jobseekers. The need is there, for there appears to be very little interest in self-motivated education among older workers. Labour market training among older jobseekers has remained at low levels.

When older age is combined with a low basic education, which is often the case, the educational needs are greater than ever. According to a recent study, reallocating more money from employment subsidies to labour market training would benefit older and long-term unemployed jobseekers, who would then have a higher probability of becoming employed (Hämäläinen, 1999).

### **The early retirement vs. unemployment choice**

The willingness to retire early has remained high in Finland despite the changes in social security provisions made to deter early withdrawal from the labour market. About two-thirds of those aged 45–64 would like to take an early retirement pension. Their reasons are closely connected with the level of burn-out (Kalimo & Toppila, 1997). Among those who claimed serious symptoms of burn-out, as many as 74–87% had thought about an early pension. In the 1970s and 1980s, the solution to labour market problems was early retirement. The above sentiments reflect the inheritance of those years. Changing prevailing attitudes will take time and effort.

In recent years, regulations on early retirement pensions have been tightened in order to reduce the out-

flow of older workers from the labour market. The government has stated that tax allowances granted for private pension savings will be reduced in the future. The evidence that has been gathered until now, however, suggests that tightening early pension rights has not been a particularly effective way to raise the employment rates of older workers. In fact, those who have lost their eligibility for pensions, in particular in the 55–59 age group, have become unemployed in increasing numbers (Hytti, 1998; Gould, 1999). This gives us a clear message: supply-side measures alone do not provide solutions to the early exit problem in Finland. Extensive efforts to improve the demand for older workers in the labour market are needed.

### **Conclusion: policy options**

The extensive structural changes that the Finnish economy went through in the 1970s created a policy framework that supported older workers' early withdrawal from the labour market. This policy line was strengthened by early retirement schemes launched in the 1980s. It became clear quite soon that the costs incurred by these kinds of policies are high. Despite measures designed later to reduce incentives for early retirement, willingness to retire among older workers has been unprecedented.

In 1997, the Finnish government launched the National Programme for Ageing Workers for the years 1998–2002. The programme aims at providing employment opportunities for the ageing through information and training, adult education, improvements in employment services and measures targeted at lowering barriers to employment. Its general goal is to shift prevailing social attitudes towards ageing workers in a more favourable direction. It is hoped that this goal will not change and that the problem of an ageing workforce will also remain one of the major concerns among policy-makers in the future.

Maintaining working ability and professional competence among ageing workers is of vital importance in tackling the early exit problem in Finland. Arriving at concrete results here is a major challenge, however. At present, there are about 400,000 people aged 40–54 in Finland who have only a basic education. In order to meet the demand for a qualified labour force, which international competition and technological change require, substantial resources should be invested in the education and training of those who lack the skills needed in the labour market.

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## Sweden

### Introduction

The population structure in Sweden is shifting towards a larger share of older people. This development is due to a decline in the fertility rate combined with longer life expectancy. The immigration flow has a somewhat rejuvenating effect on the population, but it cannot offset this development. The population forecast from Statistics Sweden (1998) implies a further shift in the composition of the population to higher age groups. The proportion of the population in the age bracket 20–64 years will slightly increase up to the early

years of the next century. and its composition will change. The average age of the active age group in the active ages will rise, and around 13% of the population is predicted to be in the age interval 55–64 years in 2010 (compared to 10% in 1998).

These changes will influence the size and composition of the labour force. However, it is not only the change in the age composition of the population that affects labour supply but also changes regarding the extent to which people in the various age intervals are active on the labour market. The general tendency in Sweden during the last two to three decades

has been that more and more people are leaving the labour force before the general retirement age of 65. The labour force participation rates are somewhat lower, both for men and women, in the 55–59 age group than the figures for 25–54 year-olds (Table 1), but the more pronounced differences in terms of lower participation rates are found for men and women in the age group 60–64 years. Nevertheless, in a European Union context, the participation rates of older people in Sweden are still high.

One rough measure of the "effective age of retirement" is the age at

which 50% of a given cohort remains in the labour force. The effective age of retirement for males has gradually decreased from around 67 years in 1965 to around 62 years in 1998. Due to increased labour force participation among women since the late 1960s, the pattern for women is different. The effective age of retirement has risen from around 55 years in 1965 to a peak of around 63 years in 1991. Then, however, it started to fall slightly – to around 61 years in 1998.

In Sweden, it is (or has been) possible to combine part-time work with various types of part-time pensions, hence facilitating a gradual withdrawal from the labour force. There is therefore a tendency, especially among those around 60 years or older, to work part time to a larger extent than among other age groups (except among the youngest, who work part-time while studying). This discrepancy is most striking among men (Table 1).

The trend of an increased number of full-time or part-time pensioners (with on average higher pensions) combined with lower economic growth cause the pension costs, as a share of GDP, to rise markedly, and these trends also lower the tax revenue from work. The development sketched above is one of the main driving forces behind the rather recent focus on the importance of increasing the capacity and incentives among workers to remain in the labour force up to the ordinary retirement age, or maybe even longer. A

possible future shortage of labour due to older workers leaving the labour force early is also a topic on the discussion agenda, but it is usually considered to be of less importance in comparison to the financial pressure on the social insurance systems.

## Changes in the policy framework: recent trends

### Policies concerning (statutory) retirement age

Since January 1999, Sweden has a new old-age pension system. In the new pension system, an individual can retire from 61 years of age and upwards, and, as in the old pension system, there is no "statutory" retirement age. However, the guaranteed pension is paid only to those aged 65 or older. The longer the individual works, the higher the pension she or he will receive when retired. The new old-age pension system is fully valid for all individuals born in 1954 or later and partly valid for individuals born between 1938 and 1953. Individuals born before 1938 are (with some exceptions) not affected at all by the change in regulations. The old pension system applies in full to such persons.

The Employment Protection Act states that an employee is obliged to retire at the age of 67. This law is optional, however, and in most collective agreements (covering the vast majority of working Swedes), the corresponding age is set at 65.

### Pathways to early exit

Most of those who, partly or fully, leave the labour market before the age of 65 do so on being granted a disability pension. In 1998, more than 420,000 individuals, of which 55% were women, were in receipt of a full or partial disability pension (Table 2). The vast majority of these (80% of the men and 72% of the women) were drawing a full disability pension, that is, they had left the labour market completely.

Between 1972 and 1996, there were special unemployment-related disability pensions for older workers. Exhaustion of unemployment benefits (after 90 weeks) gave eligibility for such a disability pension for people aged 60 or over.<sup>1</sup> These pensions were frequently used as an exit route from the labour market in cases of lay-offs. Thus, a large share of registered unemployment among older workers was, in practice, a form of early exit from the labour market. People aged 60 who had exhausted their eligibility for unemployment compensation went on disability pension because the maximum period for unemployment compensation was one year and nine months for people aged 55 or over; thus, those aged 58 years and three months who became unemployed could in practice "retire". This combination of payments from two income transfer systems was called "58.3 pensions". The granting of these "unemploy-

1 63 years or over between 1972–1974.

**Table 1: The labour market situation in 1998 by age, 16–64 years (in %)**

Age	Men				Women			
	Labour force participation rate	Unemployment rate	Employment/population ratio	Part-time ratio*	Labour force participation rate	Unemployment rate	Employment/population ratio	Part-time ratio*
16–19 years	25.1	13.5	21.7	55.6	28.2	10.8	25.3	74.0
20–24 years	66.5	12.7	58.2	16.3	58.8	10.7	52.3	44.2
25–34 years	87.0	7.0	80.9	6.9	78.7	7.4	72.9	33.9
35–44 years	89.7	6.0	84.3	5.9	89.0	5.5	81.4	38.0
45–54 years	89.7	5.1	85.2	5.5	86.7	4.2	83.4	60.8
55–59 years	83.6	6.6	78.3	7.9	78.4	4.1	75.3	39.7
60–64 years	54.3	7.7	50.5	24.5	45.2	6.0	42.5	51.1

\* Part-time workers: 34 hours a week or less as a percentage of those employed.

Source: The Swedish Labour Force Survey.

ment" pensions was discontinued from October 1991 onwards, and the granting of disability pensions for combined medical and labour market reasons was abolished from 1 January 1997.

The system of disability pensions is going to be separated from the old-age pension system in future. The new regulations are expected to be completed by the beginning of 2001.

Another possible pathway to early exit that was heavily used from the mid-1980s to the early 1990s was exit with an annuity from the occupational injury scheme. National social insurance was supplemented by occupational insurance. The replacement rate was 100% until changes were introduced in 1993, when the rate was lowered to that of sickness benefit (80%), but additional compensation of up to 100% can be obtained from the collectively agreed insurance schemes. More important, stricter definitions of occupational injuries were implemented. The number of newly granted annuities then fell sharply in 1994, after which it started to rise again, albeit slowly.

### **Policies to increase participation rates and to retain/reintegrate older workers, also by means of active labour market policy measures**

All labour market programmes, except those targeted at young individuals, are open to older people. The older unemployed are, however, underrepresented in labour market training. The work-experience scheme (*Arbetslivsutvecklingsprojekt* – ALU) introduced in 1993 has been used extensively for the placement of older unemployed, but since January 1999, no new placements in this programme are permitted. A new and similar programme (*Arbetspraktik*) in practice replaces ALU from that date.

Workers of all ages are eligible for placement in disability programmes. The two most important are sheltered workshops owned by the government and work with a wage subsi-

**Table 2: Individuals with disability pensions (in 1,000s)**

	Men	Women	Total
December			
1988	165	182	347
1989	166	189	355
1990	167	194	361
1991	168	199	367
1992	175	208	383
1993	190	225	415
1994	192	230	422
1995	189	231	420
1996	187	232	419
1997	189	234	423
1998	187	235	422

Source: National Swedish Social Insurance Board.

dy. Both these measures may offer long-term placements, sometimes up to the age of 65. It is possible, for example, to combine part-time work in a sheltered workshop with a partial disability pension. The relative importance of disability programmes is growing and, during recent years, so is the share of older workers in labour market programmes.

At the moment, there are no labour market programmes targeted exclusively at older workers, but there have been some temporary ones. The most important was the Work Placements for those over 55 years of age in the public sector (*offentligt tillfälligt arbete* – OTA). Unemployed persons aged 55 years or over who had been unemployed or in programmes for more than 24 consecutive months had the possibility to participate in public temporary work for the older unemployed. The scheme was available until the end of 1998, but the programme has been extended to 2001 in the sense that a person who turned 62 in 1998 can benefit from extended OTA until the age of 65. Younger participants (aged at least 55) can remain in the OTA scheme throughout 1999. In 1998, there were around 7,700 participants on average in the OTA programme.

Since January 1998, Sweden has a new unemployment benefit system. In the new system – which very much resembles the old one, there is a flat-

rate basic insurance and a voluntary income-related insurance. The basic insurance is paid to those who have fulfilled only the work requirement, while in order to obtain the income-related insurance, premiums also have to have been paid. The amount from basic insurance paid is SEK 240 per working day. The amount paid from the income-related insurance is 80% up to an earnings ceiling of around SEK 16,000 per month. The period for which both types of insurance can be obtained is 300 days, but for people aged 57 or older, the corresponding limit is 450 days. Although this is more generous than for younger people, it represents a tightening of the rules compared to the old system, in which the corresponding age limit was 55 years.

### **Policies promoting flexible (part-time) work and gradual retirement provisions**

In Sweden, apart from the disability pension system (see above), which permits partial disability pensions, in the old pension system there are two types of partial old-age pensions for early retirement: early old-age pensions and partial pensions. Neither of them are related to health. In the system of early old-age pensions, partial retirement (25, 50 or 75%) before the age of 65 (but at least from the age of 61) means that the pension granted is reduced proportionally. This type of pension is not very common. In the system of partial pensions, individuals between 61 and 64 years are eligible, the replacement rate is 55% and the maximum work reduction compensated for is ten hours per week since 1994. The employer's consent is needed for the reduction in working time. This has been a very extensive system, albeit not as extensive as the disability pension system, but the number of individuals receiving this pension has decreased from 1995 onwards (Table 3). The inflow of new partial pensions has varied with the replacement rate (which has varied between 50% and 65%) and the business cycle (Wadensjö, 1996).

**Table 3: Individuals with partial pensions (in 1,000s)**

	Men	Women	Total
December			
1988	23	15	39
1989	24	15	39
1990	23	15	38
1991	22	15	37
1992	29	19	48
1993	30	19	49
1994	31	20	51
1995	23	15	38
1996	16	9	25
1997	9	5	14
1998	4	2	6

Source: National Swedish Social Insurance Board.

The two pension types, early old-age pensions and partial pensions, do not exist in the new pension system, but the system of early old-age pensions, which provides actuarially reduced pensions, can be said to be an inherent possibility in the new pension system. Thus, the possibility of gradual retirement is also offered by the new system.

## Development at the level of companies and sectors

### Restructuring the workforce (with or without early exit)

Restructuring, downsizing or closing down a company often have major effects on the age-based staff structure. Up to 1991, the so-called 58.3 pensions (see above) were used frequently by companies and unions in (collective) agreement to induce older workers to retire early (see, for example, the case study in Storrie, 1993). After 1991, when this possibility was abolished, it became more common for companies to guarantee their older employees company-financed pensions up to the age of 65 if they left their jobs (see, for example, the case study in Isaksson & Johansson, 1997). These pensions are generally bought from a private insurance company. Still, older employees with health problems may be asked to apply for disability pensions.

### Company strategies and collective agreements with respect to older workers (retraining, early retirement, gradual retirement)

The relatively extensive share of older employees combining part-time work with part-time pensions is an indication that employers are generally not averse to this type of gradual exit from the labour market, since it is up to the employers to agree to the reduction of working hours. As shown by the comprehensive use of the so-called 58.3 pensions and, more recently, of company-financed pensions – supported both by the employers and the unions, this way of laying off older employees has not been a matter of controversy between the social partners. As mentioned earlier, the regular retirement age of 65 years is a consequence of collective agreements, not of legislation.

### Training/manpower development

The extent to which companies' training programmes are open to older employees can be used as an indication of company policies towards this group. Surveys of firms' training programmes have been conducted by Statistics Sweden since 1986. In these surveys, a training programme is defined as training partly or wholly financed by the employer. The statistics show that, overall, company training is very widespread. In 1997, 27% and 25% of employed men and women, respectively, had received training on company time of at least five days. Those who work full time and those with a higher level of education – groups where older workers are less common – receive more training than other groups of workers. The figures for the gender-based age groups of 50–64 years, however, show only a slight under-representation: 25% and 24% of the men and women, respectively, aged 50–64 years had received training on company time of at least five days in 1997. Thus, it does seem that em-

ployed older workers have approximately the same access to company training as workers in the other age groups.

## Perspectives of older workers

### Unemployment risks, reemployment chances

In 1998, only around 50% of the men and somewhat more than 40% of the women in the 60–64 age group were employed (Table 1). Of the employed in this age group, around one fourth of the men and half of the women worked part-time.

In this context, the relatively small differences in the unemployment rates (Table 1) do not tell the whole story about the diminishing labour market attachment of people aged 55–60 or more. It should be noted, though, that long-term unemployment is more common among older people. In 1998, 48% and 43% of unemployed men and women, respectively, in the 55–59 age group had been unemployed for more than 12 months. The corresponding figures for men and women in the 60–64 age group were 39% and 40%. This should be compared to the fact that 33% and 28% of unemployed men and women, respectively, in the 25–54 age group had been unemployed for more than 12 months. However, some of the older unemployed have in practice left the labour force and are no longer actively searching for a job (but are perhaps waiting for a company-financed pension).

Although unemployment among older workers is not markedly higher, older individuals who become unemployed usually find it harder to find a new job than do the younger unemployed. In companies' job advertisements, explicit age bars are not very common, although this would not be illegal because there is no law against age discrimination in Sweden.

Nevertheless, company policies towards older job applicants seem to



have become more strict during the 1990s. According to a poll study by the Swedish National Labour Market Board (1998), employers are most negative about the group of applicants older than 55 years. Forty percent of employers were "negative" or "very negative" about hiring someone from this age group, while 45% were neutral. Only 11% were positive. The share with a negative attitude towards older applicants is larger than the share with negative attitudes towards applicants who are long-term unemployed – the group in second place on the negative ranking list.

### Earnings situation and pension expectations, including private pensions

By comparison with most other countries, the wage structure in Sweden is very even. This means that the age-wage profile is usually less steep in Sweden than elsewhere and, therefore, that economic incentives to lay off older workers are weaker. In addition, a substantial proportion of workers experience a negative development in their real wages between the ages of 55 and 64 (Wadensjö, 1993a).

In the new pension system, the pension is calculated from age 16 and onwards, up to an earnings ceiling of 7½ "basic rates"; in 1999, 7½ "basic rates" correspond to SEK 279,000. A similar earnings ceiling applied to the old pension system, but in the old system the pension was calculated on the basis of the best 15 years' earnings (given that the individual's income from work over 30 years exceeded a yearly minimum income). In both systems, incomes above the earnings ceiling do not affect the size of the pensions.

In the new system, the pension is tied to a new index, "the income index". The income index measures the development of aggregated income in society. In the old system, the pension was tied to a price index.

In addition to the social insurance-based old-age pension system, there

are four main collectively-agreed insurance schemes, covering:

- blue-collar workers in the private sector,
- white-collar workers in the private sector,
- employees in the public sector, and
- employees in local government (the municipalities and counties).

The four schemes, together with some additional minor ones, in practice cover the total labour force.

Whilst there are some differences between the social insurance and collectively agreed systems, the similarities are more important. For old age, disability, sickness and occupational injury, the collectively bargained schemes supplement compensation from the social insurance schemes by, in most cases, 10%. More important for the high-income groups is the fact that the occupational insurance schemes also compensate for income losses above the ceiling specified by the social insurance schemes. There are also some collectively bargained insurance schemes without any counterpart in the social insurance system. The most important ones are the severance pay insurance schemes. Company pensions are of little importance in Sweden. Although savings in private pension funds have increased markedly during the last 10–15 years, the number of beneficiaries is still rather low.

### Early retirement and limited choice

A fuller understanding of the incidence of early retirement is facilitated if account is taken of early retirement as a limited choice. Most decisions to retire early are probably neither completely voluntary nor completely involuntary. A policy framework that includes high replacement rates and/or easy access to various pension schemes means stronger economic incentives to retire early. The policy developments that previously opened up or enhanced possible pathways to early retirement, however, did not arise or grow in a va-

cuum, but rather were a response to an increased downsizing of the workforce, rationalisation and the threat of rising unemployment. In addition, a degree of moral pressure from co-workers, unions and society at large may induce older workers to accept early retirement on the basis that it would lead to better employment prospects for younger workers.

### Conclusion: policy options

There are basically two major types of policy option. The first concerns the financial implications of the pension scheme in connection with demographic changes and the rising number of early or gradual retirements. The second is related to the factual possibilities available to older workers who want to keep their jobs or find new jobs. These two types may very well overlap, making it more costly to retire early/to lay off older workers for the individual employee or the employer gives incentives to stay on the job/not to lay off older workers.

The current tendency in Sweden, as regards the first option type, is to have lower or no subsidies for partial and early exit from the labour market. The possibility of partial or early labour market withdrawal is still available, but at a higher cost for the individual or firm concerned. There are also recent restrictions in the unemployment benefit system. For eligible unemployed individuals of 55–56 years of age, the duration of the unemployment benefit has been shortened by 150 days, from 450 days to 300 days.

As regards the second type of option, employed older workers in Sweden are quite well protected. Job-protection legislation applies particularly to older workers, for example through longer periods of notice by age: the period of notice for employees aged 45–64 years is six months. For older unemployed workers, the situation is different. Although there are laws (recently reinforced or introduced) against discrimination in working life based on

sex, ethnic origin, sexual orientation or disabilities, there is no law against discrimination on the basis of age, for example in the case of older job applicants.

The Swedish labour market is to a very large extent characterised by central agreements rather than legal provisions. Today, most working Swedes, for example, are obliged by collective agreements to retire at the age of 65. Nevertheless, the government has recently presented a report, *Höjd ålder för avgångsskyldighet till 67 år* Ds 1999:39, proposing changes in the Employment Protection Act such that stipulations in collective agreements prescribing a compulsory retirement age of 65 or 66 become invalid.

"Active ageing", in the sense of maintaining or reintegrating older workers on the labour market, has become an issue in Sweden only during recent years. The pressure on the old-age pension system from the ageing population was given attention earlier than that, but putting the concept of "active ageing" on the government's agenda is something that covers more than this particular issue. The deteriorating labour market prospects for older workers in the deep economic recession that started in the early 1990s probably contributed to the growing political interest in the concept of "active ageing".

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The following Web site addresses provide information on the new pension system:

<http://www.pension.gov.se/>

<http://www.pension.nu/>



# United Kingdom

## Introduction

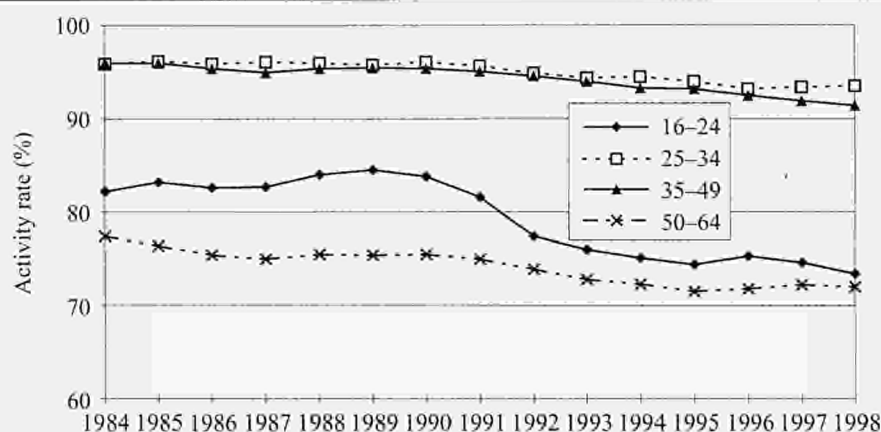
### Population trends

In the UK, as in most other industrialised countries, the population is ageing, albeit to a lesser extent than in many other EU Member States. It is predicted that between 1976 and 2011, the population aged 16 and over in Great Britain will have increased by around 15%. However, the overall effect of these changes is that, over the 35-year period, the 45–64 year-old age group will have grown from 31% to 34% of the population. The youngest group (16–24) will have fallen from 17% to 14%. The ageing of the population during this period hardly affects the oldest (65+) age groups. Dramatic changes in the number and share of the population in these groups will not emerge until at least a decade later.

### Workforce participation – activity rates

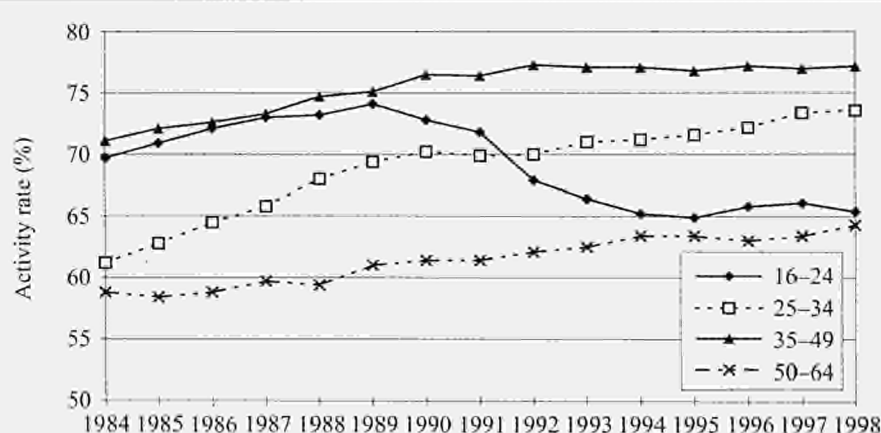
For men of all ages (Figure 1), the general trend in activity rates is downward. Among older workers, this reflects early retirement as well as a tendency of older workers who lose their jobs to cease jobsearch activities, which is reinforced by the growing use of disability benefits rather than unemployment-related benefits among this group. Recent studies confirm that this growth reflects not an increase in the incidence of ill-health but is due to people tending to stay on these benefits for longer, rather than moving back into work, reflecting the increasing difficulty faced by older workers in re-entering the labour market (cf. Kodz et al., 1999; Rowlingson & Berthoud, 1996; Dorset et al., 1998). The female pattern is very different (Figure 2), with economic activity rates increasing in all age groups other than the youngest.

Figure 1: Male economic activity rates by broad age group, 1984–1998: United Kingdom



Source: Labour Force Survey.

Figure 2: Female economic activity rates by broad age group, 1984–1998: United Kingdom



Source: Labour Force Survey.

As far as future trends are concerned, labour force projections are less reliable than population projections and are sensitive to assumptions about future unemployment trends. With these caveats, however, recent trends are projected to continue over the period to 2011. For men, activity rates are expected to decline, with the exception of the 45–54 age group. For the oldest (55–64) group, the activity rate is projected to increase slightly from its 1997 level of 63.6%, before falling again

to 60.0% by 2011. Projections for female activity rates suggest continued growth, especially in the age range 45–54. The net impact of these changing activity rates is a continued growth in the share of “older workers” (45–59 year-old women and 45–64 year-old men) in the labour force.

### Employment rates

In 1996 (Eurostat 1998), at 68.7%, the UK had the third-highest employment rate in the EU among 15–

64 year-olds (Denmark and Sweden recorded higher rates). Employment rates for older workers (50+) of both sexes are much lower than those for the middle age ranges (25-49; Figures 3 and 4). Male employment rates generally fluctuate cyclically, although among the oldest group (50-64) employment rates have been growing since 1993, following an earlier decline. Once again, the pattern for women is different, with all age groups apart from the youngest exhibiting a consistent upward trend in employment rates.

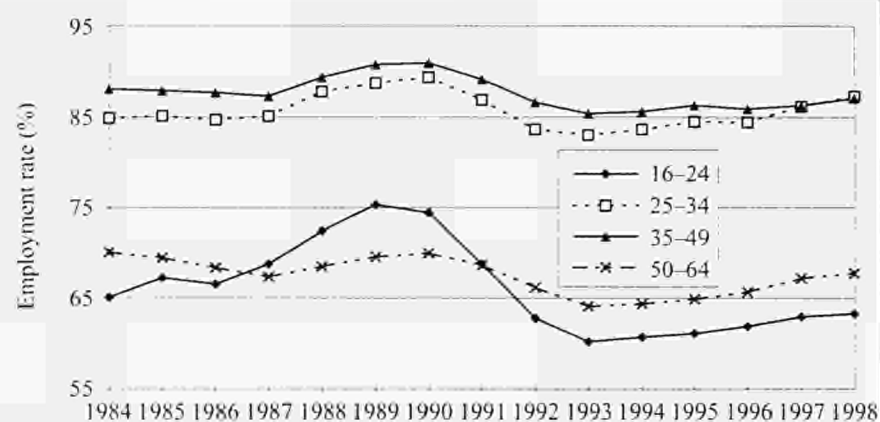
Overall, the net effect of these changes is that the share of older workers (50-59/64 year-olds) in total employment exhibits a very similar pattern to that for their share in overall economic activity, with the previous decline having halted in the early 1990s and recent years exhibiting a growing share for both men and women. It should be stressed, however, that it is unclear to what extent this upsurge in older workers' employment is a cyclical phenomenon, or whether it represents a genuine shift in the longer-term trend.

### Unemployment rates

Among men, older workers' unemployment rates are close to the overall average, lying between those of young people (with the highest rates of unemployment) and those in the 35-49 age group, who have the lowest rates. For women, unemployment rates are inversely related to age, with older women recording the lowest rates.

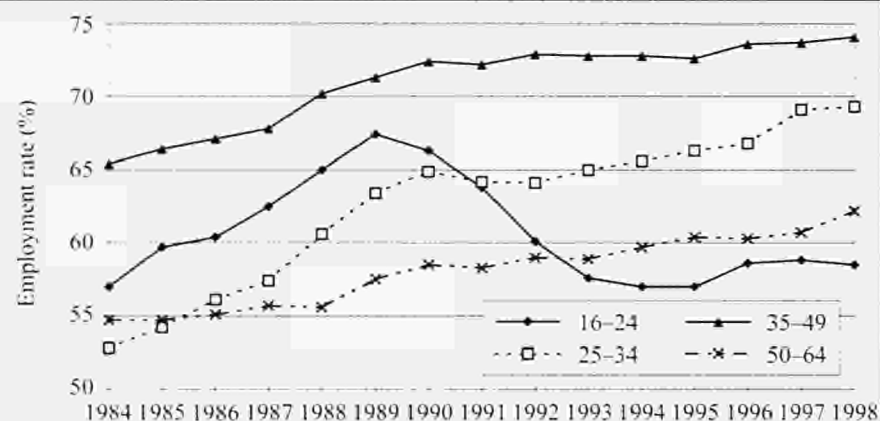
Although older workers are not disproportionately affected by unemployment, it is clear that older workers (particularly men) have a greater propensity than their younger counterparts to leave the labour market on losing their jobs, and are more likely to be inactive because they are "sick" or "disabled". The unemployment rate for older workers may not, therefore, be a good indicator of the extent of under-utilisation of the potential older workforce.

**Figure 3: Male employment rates by broad age group, 1984-1998: United Kingdom**



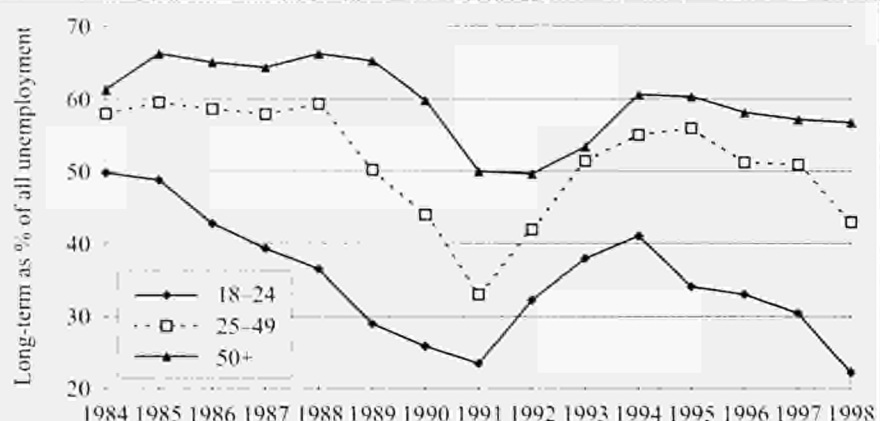
Source: Labour Force Survey.

**Figure 4: Female employment rates by broad age group, 1984-1998: United Kingdom**



Source: Labour Force Survey.

**Figure 5: Male long-term unemployment (12m+) as a share of all male unemployment by age group: United Kingdom**



Source: Labour Force Survey.

It is also noteworthy (Figures 5 and 6) that older unemployed are much more likely to be long-term unemployed than their younger counterparts. This is true for both men and women, and it is a pattern that persists over the economic cycle.

### Implications of an ageing population and workforce

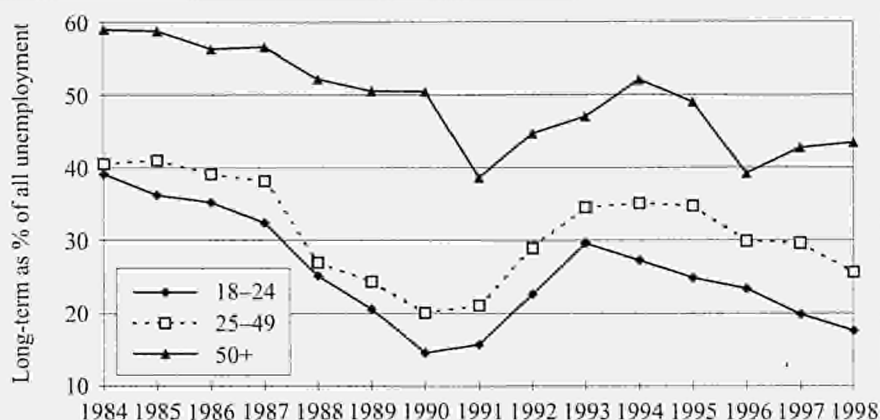
The UK's population is ageing less quickly and the dependency ratio is increasing less rapidly than in most EU countries. Despite a popular perception to the contrary, the evidence suggests that there is no imminent funding crisis for the U.K. state pension system (Whitehead, 1998; Pension Provision Group, 1998; Department for Social Security, 1998). The major growth in the number of pensioners in the UK does not occur until 2020 and 2030. Indeed, based on *current policies*, the share of GDP supporting pensioners will remain constant at around 4.4% between 2000 and 2025, before falling to around 3.4% by 2050, despite an increase in the number of pensioners from 10.5 to 14.3 million over the same period. This favourable funding position, relative to some other countries, reflects two key factors in addition to the demographic perspective: the growing role of private pension provision in the UK, and the fact that the U.K. state pension level (already low in comparative terms)<sup>1</sup> is linked to price changes rather than changes in earnings. The counterpart of this latter point is growing poverty and income inequality among pensioners, and this is the key factor driving pensions reform in the UK. Without such reform it is anticipated that by 2025 well over half of those reaching retirement age could have to rely on income-related benefits in retirement (Department of Social Security, 1998).

### Changes in the policy framework: recent trends

#### General policy framework

The thrust of recent public policy in the UK is to reverse the trend to-

**Figure 6: Female long-term unemployment (12m+) as a share of all female unemployment by age group: United Kingdom**



Source: Labour Force Survey.

wards early retirement (the legal retirement age itself is to be equalised at 65 for men and women, for equal opportunity reasons, in the period 2010–2020). More widely, it aims to promote “active ageing” and discourage age discrimination in employment. Policy implementation mostly relies on general principles, including, in particular, “voluntarism” (rather than anti-discrimination legislation); the development of a cross-governmental approach taking ageing issues into account in all areas of policy (including the role of the government as employer); and the establishment of partnerships with employers, individuals and other organisations to promote “good practice” and the benefits of an age-diverse workforce.

Specific initiatives include the following:

- A cross-governmental Ministerial Group on Older People was established in 1998 to coordinate policy on ageing issues.
- Since 1998, the “Better Government for Older People” initiative aims to improve public services for older people by better meeting their needs, listening to their views and encouraging their contributions. The notion of “active ageing” is a key part of this initiative, and consultation has taken place on a wide range of topics affecting older people, including

health, income, employment, travel, crime and care services.

- Following consultation with the public and social partners on age discrimination in employment, the government has published a Code of Practice (Department for Education and Employment, 1999), aiming to encourage employers to counter age discrimination in recruitment, selection, promotion, training and development, redundancy and retirement. The impact of the Code of Practice on employers is to be monitored over time, but the lack of any legislative sanction against discriminating employers has been the subject of criticism in the public debate (including criticism from some employer organisations).
- The current strategy of equal opportunities “mainstreaming” in all areas of government policy covers age-equality issues (as well as sex, race and disability).
- Education and training initiatives increasingly incorporate the notion of “lifelong learning”, with a focus on including older people in

<sup>1</sup> The basic state pension is a flat-rate pension, which currently accounts for about a third of all pensioner income in the UK. Its current rates are (from April 1999): GBP 66.75 a week for single pensioners and GBP 106.70 a week for couples (if the minimum contribution requirements are met). Currently, 86% of men and 49% of women qualify for a full state pension.



the education system (an example is the recent extension of the student loan system for higher education to cover people in their early 50s). More generally, the approach emphasises not just skills and employability, but also the non-economic benefits of learning (e.g. independence, self-esteem, health and active citizenship among older people).

### **Active labour market measures, taxation and benefit changes**

Since the "Job Release Scheme" was abolished in 1988, there has been no national early retirement measure in the U.K. portfolio of active labour market measures. Since the late 1980s, the emphasis of such measures as exist has been to discourage early retirement, and recent reforms of tax and benefit systems have also aimed at encouraging older workers to remain in the labour market.

Relevant measures include the following:

- Removal of upper age limits on job vacancies in Jobcentres. In 1998, the Employment Service (ES) introduced a policy eliminating the use of upper age limits for jobs advertised through Jobcentres.
- The New Deal for over-50s. One of the UK's key active labour market measures, the New Deal for people aged 25 and over (unemployed for two years or more) has recently been extended to include additional support for those over 50. The New Deal includes advice and support to help get people back into work. It also offers them the opportunity to study full time for up to a year while remaining on benefit and offers a subsidy to employers of up to GBP 75 a week for up to six months if they recruit from the target group. Early in 1999, additional measures were announced to support those over 50 years old. These include an employment credit to help low-paid older workers come off benefit.

Those moving into a job over 30 hours a week (that is, full-time work) will receive a GBP 60 weekly top-up for one year. Those in part-time work will receive GBP 40 a week. The New Deal also offers individual support and advice to participants and grants of up to GBP 750 to help them gain accredited training. Pilot schemes will start in October 1999 and the programme will be introduced nationally in 2000.

- Changes to taxation measures. During the 1980s, Inland Revenue rules for calculating pensions were revised to facilitate older workers moving to part-time employment. More recently, the government has proposed (Department of Social Security, 1998) changes to tax rules on the treatment of occupational pensions (provided by employers) in order to increase the flexibility of transition between full-time work and retirement.
- Changes to state pensions. In 1989, the rules were changed to allow people over state retirement age to work without a reduction in their state pensions. Evidence suggests, however, that the impact of the change on older workers' labour supply was small (Whitehouse, 1990).

### **Developments at the level of companies and sectors**

Recent research suggests that, despite some evidence of changing attitudes among U.K. employers, not only does age discrimination remain prevalent, but age criteria continue to be used by U.K. employers in the process of employment restructuring, and there is little general evidence of a shift towards an approach avoiding early labour market exit. The results of a qualitative in-depth study of 85 U.K. employers (Taylor & Walker, 1998) illustrate both these points clearly and reinforce the findings of earlier research on employer practice in the UK (covering the 1980s and early 1990s, in particular) and the findings reported, for exam-

ple, in Worsley (1996), who pointed out the prevalence of various forms of "voluntary" early retirement as an alternative to redundancy.

The research suggests several reasons for the persistence of this approach, including a persistent desire among older workers themselves (confirmed by surveys) for early retirement; perceptions of fairness suggesting that older people close to retirement age have "less to lose" through redundancy and job loss; and, associated with this, trade union support for use of early retirement in preference to compulsory redundancy.

Cost factors associated with occupational pensions are also important (about half of the employed workforce in the UK are currently covered by occupational pension schemes provided by their employers). This applies particularly to final-salary-based pension schemes (the commonest form of occupational pensions), to which employer contributions can be considerably higher for older than for younger workers. Employers thus have a strong cost incentive to target restructuring on older workers (Campbell, 1999), and there is clear evidence of a faster fall in employment and activity rates among those who are members of occupational schemes than among those who are not (Tanner, 1998).

As far as collective bargaining is concerned, although the U.K. trade union movement campaigns for legislation against age discrimination, in practice there is often tension between campaigning to retain older workers in employment and pressing for more generous early retirement provisions. Trade union support for the latter reflects both a commitment to the principle that employees who wish to retire early should be able to do so, and a practical recognition that in cases of employment restructuring, early retirement schemes offer the most beneficial financial compensation to displaced employees. While it has been common for trade unions to cooperate in restructuring exercises using early retirement rath-

er than redundancy, there is recent evidence of trade union resistance to such an approach, with unions – faced with the targeting of older staff in voluntary early retirement exercises – calling for the retention and retraining of older workers (Industrial Relations Services, 1997).

On the employer side, there also exist examples of strategies to manage workforce reductions without targeting older workers. Worsley (1996) cited examples of organisations reducing staffing levels through a range of options, including unpaid leave of absence, career breaks and transfers to part-time work for older workers. Similarly, the evidence of Taylor and Walker (1998), while stressing that such policies are found only in a minority of firms, noted recent examples of employers introducing proactive measures: to retain older workers, to operate partial retirement schemes or to relax barriers imposed by the pension schemes on the recruitment of older workers. Equally, there is emerging evidence that firms which made heavy use of early retirement policies during the 1980s and early 1990s have subsequently regretted the loss of skill and experience which such strategies entailed and are revising policies accordingly (Taylor & Walker, 1998, p. 67).

## Perspectives of older workers

### Employment risks/re-employment chances

We have seen that economic activity rates among older males have declined, while those among older women have increased. For both groups, however, the chances of leaving employment increase and the chances of re-entering employment decrease with age.

Thus, recent findings from panel data (Campbell, 1999) suggest that among people aged over 45, two groups are particularly likely to be displaced from work: people in the bottom quartile of the hourly wage

distribution; and people with wages in the top half of the distribution, but who are also members of an occupational pension scheme. More generally, the risk of displacement is higher among people who are older, female and/or who work in a declining industry.

Campbell (1999) also showed that relatively few people aged over 45 return to work (over a six-year period, some 76% of people aged over 45 and displaced from work do not re-enter employment). McKay and Middleton (1998) confirmed with work-history data that the chances of men leaving economic inactivity for paid work decline sharply with age (and are close to zero for those over 60). Similarly, older women face increasing difficulty in entering the labour market, and the likelihood of an economically inactive woman obtaining work declines with age (after the age of 40).

### Earnings situation and pension expectations

Individual earnings in the UK peak in middle age and then decline with age. Campbell (1999) showed that, at any given time, men around the age of 45 have the highest median hourly wages; in part this is a cohort effect (i.e. younger people in later cohorts have higher earnings than their predecessors), but taking this into account, the data suggest that real earnings for males in employment increase up to the age of about 50 (this varies slightly with the economic cycle) and then decline slightly. Further, since 1979, the average wages of older men have not increased as much in real terms as the earnings of men in their mid-40s. Older men have seen both a disproportionate fall in employment and lower relative wages, suggesting a structural demand shift against older workers in the labour market. Among women, 32 year-olds have the highest median hourly earnings, and Campbell's analysis suggests that the decline in median earnings after that peak is mainly due to older

women having lower average educational qualifications.

Looking more generally at the overall income situation of older people, we see that it depends on household structure. The tendency for income levels to fall with age partly reflects the fact that older people are more likely to live without a partner as well as the fact that incomes from employment decline with age and are only partly offset by pension incomes. The impact of household structure and the changing balance of incomes from different sources make the pattern of older people's incomes complex and difficult to summarise, but the following points are clear from existing evidence (Department for Social Security, 1998; Office for National Statistics, 1999):

- Equivalised net incomes (i.e. adjusted for household structure) for older people have increased in real terms since 1979, but the rate of change varies by household type (Table 1). In particular, couples in all age groups (50+) had a higher household income in 1997 than single people, and their income also grew more in real terms between 1979–1997. The difference is most marked among older people below the state pension age (50–59/64), where the income of couple households grew by 46% over the period compared with 33% for households containing single people.
- Over the past 20 years, newly retired pensioners have had higher incomes than their predecessors. Average pensioner incomes have increased in real terms by over 60%, more rapidly than for the rest of the population. More people have second pensions in addition to the state pension (the real value of which is declining over time), especially occupational pensions provided by employers, and in the future the share receiving income from personal pensions (currently very small) will increase. On current policies, however, whilst average income re-



ceived by those in retirement is forecast to keep pace with earnings inflation (until 2025, after which it will decline), increasing inequality in pensioners' incomes is likely, with up to a third of pensioners in poverty by 2025 (this underlies current policies towards pension reform in the UK and the proposed introduction of a new system of "stakeholder pensions" for low income earners; Department for Social Security, 1998).

### Access to training and lifelong learning

There is considerable evidence that older workers in the UK are less likely to receive work-related training than their younger counterparts. Kodz et al. (1999) summarised the evidence, showing that:

- Over half of private-sector employers cite "lack of appropriate skills" as limiting the recruitment and promotion of older workers, but only 16% of the same employers provide training for them (Thompson, 1991).
- 40% of managerial staff aged over 55 had received no training in the previous 12 months, compared with 18% of those aged under 35. The research suggests that early retirement schemes, lower recruitment levels of older workers and layering within organisations have reduced the training and development opportunities for older workers (Arrowsmith & McGoldrick, 1996).
- LFS data for the UK (Figure 7) confirm that the likelihood of a person in employment receiving work-related education or training declines markedly with age.

### Choice between early retirement/unemployment

We have already noted the high and growing rates of economic inactivity, among older males in particular. There has, associated with this, been a massive increase in the numbers of inactive older people claiming dis-

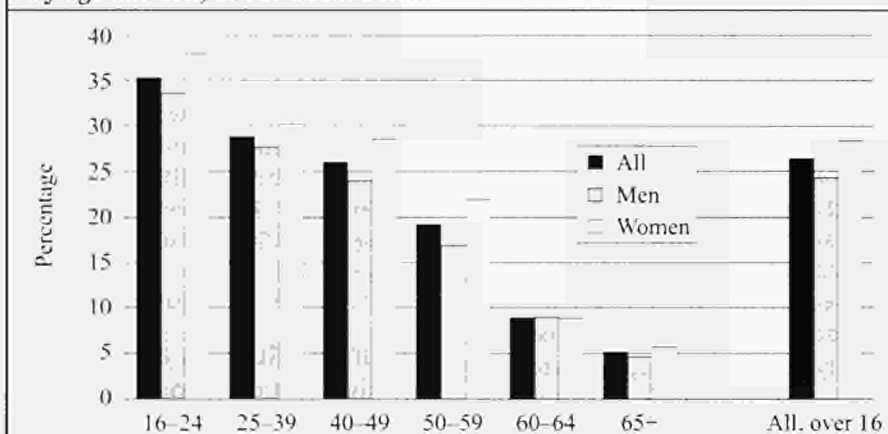
**Table 1: Average net equivalised household income: by type of family unit and age of head (50+), 1979-1997: UK (GBP per week\*)**

	1979	1990-91	1995-97
Couples with head under retirement age	245	332	358
Single people under retirement age	224	264	297
Recently retired couples	186	264	300
Recently retired single people	179	255	276
Couples over retirement age	156	236	243
Single people over retirement age	157	215	232

\* April 1998 prices.

Source: Office for National Statistics (1999, p. 52).

**Figure 7: Employed people: whether received training in last 13 weeks, by age and sex, 1998: Great Britain**



Source: Labour Force Survey, Spring 1998.

ability-related benefits in the UK, many of whom exhibit some degree of labour market attachment (Meager & Evans, 1998). The evidence suggests that a significant proportion of this group would prefer to be in the labour market if they felt that they had a chance of obtaining work (or work yielding an income level significantly above their state benefit entitlement). Thus, for example, a survey of people who had left employment during the major restructuring in the late 1980s (Dench & Norton, 1996) found that many felt forced out of employment, experienced great difficulty in finding new work and often "gave up" and left the labour market after a period of unsuccessful jobsearch (or time spent in "poor jobs"). Consistent with this finding, Campbell (1999), using LFS and panel survey data, concluded that much of the falling employment

rate among older males is "involuntary" and reflects:

- growth in occupational pension provision, which provides an incentive for employers to target older workers in workforce restructuring;
- shifting labour demand away from industries (e.g. manufacturing) in which older men were concentrated;
- growing numbers of older workers moving from employment to unemployment or to long-term "sickness/disability" before entering retirement;
- the fact that displaced workers typically find that their potential earnings in a new job are significantly lower than their previous wage. The data suggest that this difference is largest (up to 35%) for older workers and is a disin-

centive for such displaced workers to re-enter the labour market.

## Conclusion: policy options

The implications of an ageing population and workforce are of growing significance in the policy debate in the UK, and the concept of "active ageing" is now increasingly evident in a wide range of policy areas, although age has yet to achieve the prominence, as an issue of equal opportunities policy, that is given to issues of discrimination on grounds of sex, race or disability.

It is clear, however, that the debate can only intensify as the proportion of older people continues to increase (albeit less sharply in the coming decades than in many Member States). Key policy questions emerging from the analysis presented above include the following:

- To what extent can persistent age discrimination in employment adequately be tackled through a voluntarist approach, based on the dissemination of good practice, rather than through an approach based on anti-discrimination legislation?
- To what extent will the proposed reforms to the pension system and the introduction of new "second-tier" pensions address the growing problem of income inequality and

poverty among pensioners dependent on low levels of state pensions?

- What options exist to reduce the incentives (e.g. cost savings from occupational pension contributions) for employers to target older workers for workforce restructuring; and, similarly, the incentives (e.g. low re-entry wages, inadequate skills) for displaced older workers not to re-enter employment?
- Are existing training and lifelong learning initiatives sufficient to tackle the persistent disadvantage faced by older workers in their access to training and education?

Nigel Meager & Sally Dench

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The aim of the European Employment Observatory is to promote the multilateral exchange of information on labour markets and labour market policies between EU Member States and to produce and disseminate quality analyses and research on relevant issues for employment and labour market policy.

The European employment strategy adopted by the European Council in Essen in December 1994 imposed new demands on the Observatory. In particular, it is expected to contribute effectively to the task of monitoring the progress of labour market reforms that are in line with the common strategic goals. Following the changes introduced in 1996 to cope with these new challenges and tasks, the Observatory now consists of two networks MISEP (Mutual Information System on Employment Policies) and SYSDem (System of Documentation, Evaluation and Monitoring of Employment Policies) and a new RESEARCH advisory group.

The main products of the networks, which consist of members of the national labour market administrations (MISEP) and independent researchers (SYSDem, RESEARCH) and are administered by a common secretariat, are the following:

## **inforMISEP Policies**

This series reports four times a year on recent labour market policy developments in Member States. Following a summary drawing on the five recommendations for an integrated European employment strategy, the main section of "Policies" consists of the national reports supplied by the correspondents. Since 1993 "Policies" has also included a longer article ("Focus"), which is the responsibility of the Secretariat; "Focus" discusses a labour market or employment policy-related topic and often extends to non-Member States.

## **Basic Information Reports**

These are comprehensive national reports on all EU member countries. They are updated every two years and report on public labour market institutions (ministries and employment services), the statutory bases for labour, labour market and employment policies and, in particular, "active" and "passive" labour market policy measures; details of information and research institutions dealing with employment policy are also provided.

## **Tableau de bord**

The "Tableau de bord" is a synoptic overview of the labour market and employment policy measures implemented by the Member States, classified according to the five policy areas recommended at Essen.

## **Trends**

This main product of the SYSDem network appears twice a year and provides a comparative and indepth overview of selected policies and developments in the labour markets of the Member States.

## **RESEARCH report**

An annual report is to be published by the RESEARCH network in the form of a study of a selected labour market or employment policy topic.

## **Electronic Documentation System**

Large parts of the information contained in the publications are also available on CD-ROM, the ERSEP (Electronic Retrieval System on Employment Policies) database, and are accessible via Internet <http://www.ias-berlin.de>.